INDIA

AND THE

GOLD STANDARD

BY

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PREFACE.

EXCEPTIONAL interest attaches to the monetary system now in force in India, as representing a great practical experiment in the direction of the establishment of a Gold Exchange Standard, or, in other words, an arbitrary fixing of the parity of the standard silver coin with gold. It is somewhat curious that, though prior to the introduction of the standard the proposals made formed the subject of much controversy, and though numerous articles relating to it have subsequently appeared in the press, no connected account of the currency system of India since her adoption of the standard has, so far as I am aware, been published. This book makes an attempt to furnish a description of the existing currency arrangements in India, and an explanation of the circumstances of their adoption and development. I have also referred to certain subjects which are more or less directly connected with the Gold Exchange Standard in some of its aspects, such as India's balance of trade and the alleged effect on prices of the coinage of rupees by the Government of India.

2. Conditions in India, as in other undeveloped countries, differ from those in the more advanced

countries in which a currency containing a large proportion of gold coins has been necessitated by economic requirements. The mono-metallic standard with the free coinage of the standard metal possible in the case of the latter possesses a great element of strength as well as of simplicity, inasmuch as the standard coin of the country is available for export at its face value when trade demands so require. In India, however, and other Oriental countries the use of silver in large amounts is a vital necessity for everyday transactions. The adoption of the Gold Exchange Standard has made it possible for her to retain the silver in daily use, while at the same time eliminating the fluctuations of exchange between her and gold-using countries to which she was formerly liable. The rupee has under these arrangements been converted to a token coin. The advantages of a token coinage are that it is economical, is not liable to be taken out of a country by exportation, and is less likely to be melted down than a coinage with an intrinsic value equivalent to its face value. The maintenance of such a currency necessarily involves some intervention on the part of the Government. As, however, an American writer, Mr. C. A. Conant, has pointed out in connection with systems of the kind, "constant intervention by the Government is a part of the existence of any system, even where free and gratuitous coinage on private account is authorised by law.

The advantage of a token currency is that the Government takes upon itself the responsibility for maintaining the par value of the coins by means of a gold reserve and takes the necessary steps to maintain this reserve . . . . . The proposition is not to secure fixity of value between gold and silver bullion, but between gold and silver coins. Therein lies a marked distinction." It is of course incumbent on the controlling Government to regulate the amount of silver money to the need for it and to take the necessary steps for keeping such money at par, in order to ensure that, though the price of gold and silver bullion continue to be subject to the play of supply and demand in the market, the fluctuations in bullion will not affect the value of the coins.

I have endeavoured to explain the method in which the Government of India have dealt with these problems, and with the difficulties which have incidentally arisen in connection with them. It is perhaps hardly necessary to dwell at length on the fact that the difficulty of the maintenance of the par value of the rupee, or in other words the stability of exchange, depends on the maintenance of a balance of trade favourable to India or, to use a more correct terminology, of an equilibrium in her international 'balance of accounts' or 'balance of indebtedness.' Such equilibrium is ultimately dependent on the continuance of India's economic prosperity, whether

agricultural or industrial, which will enable her to pay by her exports for her imports and for the other services rendered to her by other countries. This fact is, however, true for all countries whatever their monetary system.

3. There is one matter to which I have not referred in the following chapters, *viz.*, the duty of 4 annas per ounce imposed in 1910 on silver imported into India. The imposition of a heavy tax on silver had previously been on more than one occasion pressed on the Government of India by critics of their currency policy, in order, as some put it, to prevent the competition of silver with the Secretary of State's drawings, or, from another point of view, to raise the rupee from its bullion value to something more akin to its token value. It is not impossible that the tax may operate to strengthen the position of the Government of India in respect to their currency arrangements for one or other, or both, of the reasons suggested. The tax is not, however, as the above remarks indicate, an essential feature of the system; and it was imposed, as the Government expressly stated at the time, solely for revenue purposes. I have therefore refrained from entering on a discussion of this controversial question.

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H. F. HOWARD.

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Page 25, line 10 :—*for* 'reserved' *read* 'resumed.'
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CHAPTER I.

THE INDIAN MONETARY SYSTEM.

Indian Currency before the closing of the Mints in 1893.

In view of the more recent developments of the monetary system of India, certain facts in its earlier history are of considerable interest These are very clearly set out in the report of the Indian Currency Committee of 1898, and in this and the three following paragraphs I have practically reproduced the information there summarised.

At the beginning of the last century no uniform measure of value existed in British India. Some parts of India (*e.g.*, Madras) maintained a gold standard and currency; elsewhere, as in Bengal, a silver standard obtained, with gold coins in concurrent circulation; throughout India the coins, whether of gold or silver, differed in denomination and differed in intrinsic value even within the same district. Out of this confusion arose the demand for an uniform coinage, a demand to which the Court of Directors of the East India Company gave their approbation in 1806. It is important to observe

that the Directors, while "fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account," by no means desired to drive gold out of circulation. "It is not by any means our wish," they said, "to introduce a silver currency to the exclusion of the gold, where the latter is the general measure of value, any more than to force a gold coin where silver is the general measure of value." Nevertheless the first fruits of the policy of 1806 were seen in the substitution in 1818 of the silver rupee for the gold "pagoda" as the standard coin of the Madras Presidency, where gold coins had hitherto been the principal currency and money of account. In 1835, when the present silver rupee was formally established as the standard coin of the whole of British India, it was enacted that "no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company."

2. But, though gold had ceased to be a legal tender in India as between private individuals, the coining of gold mohurs (or "15 rupee pieces") was authorised by the Act of 1835, and a Proclamation of 13th January 1841 authorised officers in charge of public treasuries "freely to receive" these coins at the rates, until further orders, "respectively denoted by the denomination of the pieces." As the gold mohur and the silver rupee were of identical weight and fineness, this Proclamation

represented a ratio of 15 to 1 between gold and silver. In 1852 it was held by the Directors of the East India Company, on representations from the Government of India, that the effect of this Proclamation "has been, and is likely to be still more, embarrassing" to the Government of India. "The extensive discoveries of gold in Australia having had the effect of diminishing its value relatively to silver, holders of gold coin have naturally availed themselves of the opportunity of obtaining at the Government treasuries a larger price in silver than they could obtain in the market." Consequently, on the 25th December 1852 there was issued a Notification withdrawing the above provision of 1841, and declaring that, on and after 1st January 1853, "no gold coin will be received on account of payments due, or in any way to be made, to the Government in any public treasury within the territories of the East India Company."

3. In 1864, the Bombay Association (representing the native mercantile community of Bombay) and the Chambers of Commerce of Bengal, Bombay and Madras having memorialised the Government of India for a gold currency, the Government proposed "that sovereigns and half-sovereigns according to the British and Australian standard, coined at any properly authorised Royal Mint in England, Australia, or India, should be made legal tender throughout the British

dominions in India, at the rate of one sovereign for 10 rupees; and that the Government currency notes should be exchangeable either for rupees or for sovereigns at the rate of a sovereign for 10 rupees, but that they should not be exchangeable for bullion." The Imperial Government, while unwilling to make the sovereign a legal tender, saw "no objection to reverting to a state of matters which prevailed in India for many years, namely, that gold coin should be received into the public treasuries at a rate to be fixed by Government and publicly announced by Proclamation." It was considered that this experimental measure "will, as far as it goes, facilitate the use of the sovereign and half-sovereign in all parts of India; it will pave the way for the use of a gold coinage in whatever shape it may ultimately be found advisable to introduce it; and at the same time, it establishes a preference in favour of the sovereign." Accordingly, on 23rd November 1864, a Notification was issued that sovereigns and half-sovereigns should, until further notice, be received as equivalent to 10 rupees and 5 rupees respectively, in payment of sums due to Government. In the following March, the directors of the Bank of Bengal urged that "in view of the continued influx of sovereigns," the time had come when British gold might, "with safety and advantage, be declared legal tender at the respective rates of ten and five rupees," and the

Government of India again pressed their original proposal on the Imperial Government. The Secretary of State replied on 17th May 1865, that the time did not appear to have arrived for taking any further step, nor did he see that any practical advantage would attend the proposal to admit British gold to legal tender in India. On 28th October 1868, the Government of India raised the rate for the receipt of sovereigns and half-sovereigns at the public treasuries from Rs. 10 and Rs. 5 to Rs. 10¼ and Rs. 5⅛, respectively.

4. The year 1873, when the free mintage of silver was abandoned by the countries forming the Latin Union, marked the commencement of a continuous fall in the gold value of the metal. As at that time silver tendered for coinage was received without limit at the Mints of Calcutta and Bombay, the gold value of the rupee depended on the value of silver bullion. A heavy and continuous fall in exchange necessarily followed as between India and countries possessing a gold standard. In 1878 the Government of India stated that they were "led to the general conclusion that it will be practicable, without present injury to the community as a whole, or risk of future difficulties, to adopt a gold standard while retaining the present silver currency of India, and that we may thereby in the future fully protect ourselves from the very real and serious dangers impending over us so long as the present system

is maintained." Aiming at the eventual adoption of the British standard, and the extension to India of the use of British gold coins, the Government proposed to proceed at the outset as follows: "We first take power to receive British or British Indian gold coin in payment for any demands of the Government at rates to be fixed from time to time by the Governmnet, till the exchange" (about 1*s.* 7*d.* in 1878) "has settled itself sufficiently to enable us to fix the rupee value in relation to the pound sterling permanently at 2*s.* Simultaneously with this, the seignorage on the coinage of silver would be raised to such a rate as would virtually make the cost of a rupee—to persons importing bullion—equal in amount to the value given to the rupee in comparison with the gold coins above spoken of. We should thus obtain a self-acting system under which silver would be admitted for coinage at the fixed gold rate as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable." The above proposals of 1878 were referred to a Departmental Committee, who, on 30th April 1879, briefly reported that they were "unanimously of opinion that they cannot recommend them for the sanction of Her Majesty's Government."

5. Between 1878 and 1892 the continued fall in the gold price of silver caused repeated

embarrassment to the Government of India. The consequent fall in exchange not only upset trade and tended to discourage the influx of much needed capital from England into India, but also caused a serious direct loss to the Government of the latter country in making their remittances to meet their sterling obligations in England. But the main object of such attempts as were made by that Government to deal with the subject during the period in question was not to effect a change of standard in India, but to facilitate an international agreement which might cause a rise in the gold price of silver, and thus diminish the inconvenience resulting from the retention of a silver standard in India. The International Monetary Conference at Brussels, which was convened in 1892 for the consideration of measures for the increased use of silver as currency, failed to secure an agreement. Meanwhile the Government of India had recorded their deliberate opinion that, in the event of such a result, they should at once close their mints to the free coinage of silver and make arrangements for the introduction of a gold standard. On the advice of Lord Herschell's Committee, India was permitted to take steps for her own protection. As a preliminary measure, the Indian Mints were closed to the unrestricted coinage of rupees in 1893. It was at the same time declared that gold coin and bullion would be received at the Mints at the rate of 1*s.* 4*d.* to the

rupee, and that the sovereign and half-sovereign would be similarly received in payment of sums due to Government. It may be noted that gold was not thereby constituted a legal tender, though accepted by the Government in payment of the public dues, that the rupee remained by law the only coin in which other than small payments could be made, and that no legal relation was created between rupees and gold. The idea underlying these measures was that the ultimate effect of stopping the supply of new rupees must be continuously to force up exchange till a maximum rate was reached, only exceeding 1*s.* 4*d.* by the cost of transmitting gold. At that point the balance of indebtedness to India would naturally be paid in gold, which would accumulate in the hands of the Government. When the tide turned and the price of Council bills began to fall, exchange was to be steadied by shipping gold to England in payment of the home charges instead of selling bills. These arrangements obviously did not constitute, nor indeed were they intended to constitute, a final settlement of the problem. The rupee was severed from silver without being at once anchored to gold, and remained liable to violent temporary fluctuation though not to progressive depreciation. The declaration of a maximum rate of exchange would necessarily tend to encourage an exodus of capital as soon as the gold point was reached.

Introduction of a Gold Exchange Standard.

6. Though the coinage of rupees ceased with the closing of the Mints, the results of the policy were not immediately apparent. The sterling value of the rupee, which had averaged 14·546*d.* in 1893-94, dropped to 13·1*d.* in 1894-95, doubtless in sympathy with the continued fall in the gold value of silver bullion. In the following year it gradually rose, but it was not till 1897-98 that its average value exceeded 1*s.* 3*d.* Apart from the slow progress made, the provisional scheme was unavoidably artificial and calculated to give rise to apprehension that the material interests of India would suffer from the withdrawal of confidence in her monetary future. It was therefore clearly essential that the provisional arrangements made in 1893 should be replaced or completed; and in 1898 a Committee was appointed under the presidency of Sir Henry Fowler to consider proposals to this end. The Committee presented their report in 1899. Meanwhile there had been a marked improvement in the position. During 1898-99, in spite of unusually heavy drawings by the Secretary of State, the average value of the rupee rose to approximately 1*s.* 4*d.* (15·97*d.*) and gold to the value of £2,000,000 flowed into the Indian treasuries. In other words, what the Government of India described as the "stage of distrust," which

interfered with the actual realisation of a rate of sixteen pence, had been passed. It was now decided definitely to link the rupee on to the sovereign at this rate; and in September 1899 sovereigns and half-sovereigns were made legal tender, the rupee and a half-rupee, though still legal tender for any sum, becoming in effect token coins with a value of 1-15th and 1-30th of a sovereign respectively.

7. India thus at last obtained what may be called a Gold Exchange Standard in contradistinction to the term Gold Standard in the sense in which this is generally understood as applying to countries in which the Mints are open to the free coinage of gold. It was contemplated by Sir Henry Fowler's Committee that this stage should be transitory only, and they recommended that the Indian Mints should be thrown open to the unrestricted coinage of gold on terms such as govern the three Australian branches of the Royal Mint. Owing to various legal and technical difficulties, this proposal was temporarily dropped in 1902. By this time, as will appear from the following paragraphs, the imports of gold were too great to be absorbed and the defect had, for the time at any rate, become of a somewhat sentimental nature, as the actual operations of the coinage of the sovereign, the standard gold coin, are conducted in England and Australia without expense to India. The decision arrived at is not necessarily

final and the Finance Member of the Viceroy's Council recently announced in March 1911 that the question would receive further examination.

8. To render the Gold Exchange Standard effective, or in other words, to fix exchange at the level decided upon, and to secure that the currency should be self-regulating at that level, two propositions are essential. The first is to ensure that importers of gold should obtain rupees for their gold, and the second that conversely, when gold is required for the purpose of remittance, it should be possible to meet this demand from the gold reserves of Government. As regards the first requirement, little difficulty was anticipated. The Committee recognised that further coinage of rupees by Government would eventually be necessary. Fresh rupees should not, however, be coined until the proportion of gold to the currency was found to exceed the requirements of the public. In effect, though the Indian Mints were not opened to the free coinage of silver, the rupee currency would be "automatic," inasmuch as (to quote the words used by Lord Farrer before the Committee in questions 12179-80) it "can be increased *ad libitum* by persons bringing a certain quantity of the standard metal to the Government and getting it converted into currency, or, in other words, every person has a right to go to the Government with a certain quantity of gold

in his hand and to be able to say to them 'you shall give me for that a certain number of rupees.'"

9. It is clear, however, that for the permanent maintenance of a system of this nature it is also necessary to ensure the reverse process, *viz.*, the conversion of rupees tendered by the public into gold. For this purpose the accumulation of a strong gold reserve is essential, and the Committee recommended, with a view to its formation, that "any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balances of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances." The object of this suggestion was to give effect to the view stated in paragraph 59 of the same report that the principal use of a gold reserve was "that it should be available for foreign remittances whenever the exchange falls below specie point, and that the Government of India should make their gold available for this purpose, when necessary, under such conditions as the circumstances of the time may render desirable."

No such reserve was however immediately available, and it was decided at the outset that, while the Government of India should arrange to give gold for rupees as far as possible, they should not accept any legal obligation to do so. Such obligation would have been dangerous at any time and more-

over would, at the tentative stage reached in 1899, have involved borrowing an indefinite amount of gold for the purpose of convertibility. At the same time it was fully recognised that it was essential to aim at the attainment, with the least possible delay, of practical convertibility, such as exists in France. Fortunately for the success of the new system, from the first no difficulties arose from any demand for gold on the part of the public and any apprehensions felt in this respect proved to be unfounded. Gold continued to flow into India, and the first embarrassment which the Government experienced in connection with the new arrangements was caused by serious and continued risks of a shortage of rupees commencing early in 1900.

The Paper Currency Reserve.

10. It will at this stage be convenient to describe briefly the machinery by which the conversion of sovereigns is carried out. The pivot of the system is the Paper Currency Reserve, which is held against the note circulation. The Presidency Banks had at one time been authorised to issue notes payable on demand, but this power was withdrawn in 1862, when provision was made for the issue of a Paper Currency through a Government department, by means of notes of the Government of India payable to bearer on demand. There is no limit to the amount of the issues, but it is provided

by law that the whole amount of currency notes at any time in circulation shall be secured by a reserve of gold and silver coin or bullion and securities of the Government of India or of the United Kingdom. The total amount of such securities is subject to a limit which has been raised from time to time with the growth of the volume of the Paper Currency Reserve. Recent legislation in March 1911 has fixed the limit at Rs. 14 crores, of which not more than Rs. 4 crores may be in sterling securities. The metallic portion of the reserve, or any part of this, may be held either in London or India, or partly in both places, and also in gold coin or bullion, or in rupees or silver bullion (the last named being valued at cost price) at the free discretion of the Government, subject only to the exception that rupees may be kept only in India and not in London. The authority to hold a portion of the gold or silver bullion in London was obtained under the Gold Note Acts of 1898 and 1900. A statement of the circulation and of the reserves is published weekly, and, as a well-known Indian banker recently wrote, "it is difficult to conceive a more perfect, more public, and more automatic system, one which bears constant evidence of redemption at call, and which contracts and expands exactly according to the requirements of the community, no more and no less."

11. The importance of this reserve for the present purpose is due to the fact that as the gold

required could not legitimately be obtained by borrowing, it could only be procured and paid for with the rupees in the general Treasury balances or with those held in the Paper Currency Reserve. The Treasury balances, however, which are really "till" money, are necessarily on the average kept at the lowest amount sufficient to meet current requirements, and gold can therefore be held in them to a limited extent only. On the other hand, the number of rupees which can be held in the Paper Currency Reserve, in addition to the amount of the investment, is largely in excess of the amount required for the purpose of meeting ordinary current payments. Some of the surplus rupees can therefore safely be replaced by gold, which can of course be converted into rupees by the purchase and coinage of silver should emergency arise. This process, however, takes time, and it is apparent that, as the total stock of metal in the reserve is limited by the volume of note circulation, an excessive tender of gold may lead to a dangerous deficiency in the amount of silver.

Resumption of rupee coinage and creation of the Gold Reserve Fund.

12. In the event this is what actually happened. The net imports of sovereigns and half-sovereigns during the two years 1899-1900 and 1900-01 amounted to £5·3 millions and £3·8 millions

respectively. Gold was held in the Reserve in March 1898 for the first time for 22 years; and though the amount at first grew slowly, it sprang up rapidly after February 1899 and by the end of March 1900 had risen to £7½ millions. The silver reserve fell steadily till at the end of April 1900 it reached the dangerously low figure of Rs. 3·7 crores only. The extent of the trade demand for rupees at the time is shown by the large tenderings of gold which the above figures indicate. Some attempts were at first made by the Government to push the use of gold. It was, however, soon found necessary to recommence coinage of rupees at the Mints. The demand continued and these were kept working at high pressure during the year, the outturn of rupees during 1900-01 being more than Rs. 17 crores, this being in excess of the number turned out in any single year when the Mints were open to free coinage.

13. The above events had two important results. The previous hesitation to coin rupees had been due to the view that it was essential to accumulate a stock of gold and that it was undesirable to water down the rupee currency. It was now, however, properly appreciated (Sir Clinton Dawkin's Budget Statement of March 1900) that so long as Government refrained from coining rupees, except upon the demand of trade, there could be no dilution of currency. Henceforward it was expressly recognised that Government should be guided by the

trade demand for the silver circulating medium. This is indeed an essential duty of the Government of India, as Lord Farrer stated before the Currency Committee (doubtless with conditions of the above kind in view):—"The Government of India cannot, under any scheme, avoid the responsibility of keeping in India, and, if necessary, of coining, as many silver rupees as are likely at any given moment to be in demand." The movement of the silver portion of the Paper Currency Reserve affords a barometer of a valuable nature to show the movements of the trade demand and to enable the Government to estimate the extent to which further silver coinage is necessary.

The second result was the constitution of a gold reserve. The heavy additions to the rupee currency in the first year after the resumption of coinage made this essential. Rupees were now practically "notes printed on silver" and issued against gold, and it became incumbent on Government to make this provision for their removal from circulation when no longer required, and thus to prevent any dilution of the currency. The Paper Currency Reserve had proved insufficiently elastic to hold a stock of gold of the requisite magnitude, and the Government of India took the opportunity afforded by the profits arising from the coinage of the fresh rupees to give effect to the recommendations of the Currency Committee for the constitution of a separate Gold Reserve Fund.

A commencement was made at the beginning of 1901, when the profits which had accrued from April 1900 were credited to the fund, remitted to England and there invested in sterling securities. The demand for rupees for trade requirements still continued, and in the following years necessitated very heavy coinage at the Indian Mints; and the investments of the Reserve were rapidly swelled by the credit of the consequent profits in coinage and the accruing interest. The form in which it was decided to hold the fund has from time to time been much criticised. This matter is discussed more fully below in paragraphs 17 and 23 *et seq.*, where I have also endeavoured to give a more detailed account of the objects which the gold reserves of the Government are designed to meet, and of the circumstances in which they have in practice been utilized.

Further development. Transfer of portion of the Paper Currency gold to London.

14. The large quantities of gold which at this period flowed into India to finance her rapidly increasing exports also necessitated another important development of her currency policy. After the closing of the Mints and the establishment of the Gold Exchange Standard, the only means of obtaining currency, apart from the purchase of Council drafts and transfers, was to bring out gold to India. The law compels the issue of

notes in exchange for sovereigns, and in this way every importer of gold can convert his demand for rupees into a form which throws on the Government the onus of refusing rupees for notes. They were thus practically forced into accepting the obligation to supply rupees on demand as part of their note system. Owing to the relatively limited demand for the sovereign as a circulating medium in India, the gold presented tended to accumulate in the Currency Reserve to the exclusion of rupees till it constituted a positive danger. While it is of course open to trade to meet its requirements by exporting gold to India, it is clear that there was no object in forcing it, by the restriction of the sale of Council bills, to import gold in this way provided that adequate stocks for current requirements are held in the Currency Reserve. As I shall show below, there are indications that the gold in circulation in India is gradually increasing. Should it eventually become a largely used circulating medium in that country and to some extent displace silver, this would bring about the result which the Government of India have all along been desirous of obtaining, *viz.*, that there may be a large stock of gold available in the country, available for export should the balance of trade set against India. Till, however, this desirable condition occurs, a restriction of Council bills in order to force imports of gold to more than a limited extent

merely involves the reshipment of the excess gold to England for the purchase of silver at the expense of the Government of India. Moreover, the stoppage of Council bills and telegraphic transfers disorganizes trade and merely defers the demand for rupees. To avoid this result, the policy was adopted of selling Council bills freely in order to supply the trade demand as fully as possible. One phase of this policy took the form of the sale by the Secretary of State of telegraphic transfers against shipments of gold from Australia which were thus diverted from India to London.

These measures resulted in an increase in the drawings of the Secretary of State to an average of £26,620,200 in the three years 1903-04 to 1905-06 against an average of £17,620,000 in the preceding five years. This increase does not correspond to any equivalent expansion of the Secretary of State's requirements on revenue account (which constitute the Home Charges proper) though there was some increase in the latter also. The *extent* of the demand for currency is of course intimately connected with questions of the balance of trade into which it is not necessary for me to enter here. The *form*, however, in which the demand occurs and is met is a matter for administrative arrangement and is theoretically independent of such questions. There has been frequent misapprehension on this point and it is therefore essential to emphasise it. The

net effect in India of the demand for silver currency is clearly eventually the same, whether this is required to meet the presentation of gold or the sales of Council bills and telegraphic transfers. The surplus proceeds of these sales, in excess of the Secretary of State's requirements on revenue account, were applied partly to the purchase of silver for coinage, partly to strengthening the cash balances of the Home Treasury, and partly to defraying capital outlay in connection with railway construction.

15. The extended use made of Council bills as a means of ordinary trade remittance during this period did not prevent the despatch of very considerable quantities of gold to India, with the result that the gold held in the Currency Reserve in that country amounted to over Rs. 16 crores at the end of 1904-05. In the following year it was decided to establish a branch of the Paper Currency Reserve in London and in the course of the year a sum of £6,000,000 was remitted to England for this purpose, a further £1,045,000 being added from the proceeds of Council sales. The gold is held on behalf of the Secretary of State by the Bank of England where it is "earmarked" as forming portion of the Reserve. This step attracted some adverse comment at the time as being retrogressive, and the Finance Member in the course of his speech on the budget of 1906-07 found it necessary to explain at some

length the real nature of this transaction. The main reason assigned for the arrangement is that when held in London the gold is one stage nearer the point at which it becomes practically effective for its primary purpose of securing the encashment of currency notes. So long as gold is not in active circulation in India, what the presenter of notes requires is not sovereigns but rupees, and the silver bullion which must be purchased for the coinage of these can ordinarily only be procured in Europe and not in India. Certain other advantages also attach to the location of a portion of the currency gold in England. It enables the Secretary of State to effect his purchases of silver promptly, and without the publicity attendant on the shipment of gold from India. It also adds elasticity to other transactions as between England and India inasmuch as—

(*a*) in the event of the demand for Council bills being insufficient to supply the Secretary of State's current requirements, he can transfer the currency gold to Treasury account, a corresponding transfer of either rupees or gold being simultaneously made in India in the other direction;

(*b*) conversely it affords a means of giving relief to the India Treasury balances when the trade demand for Council drafts is too heavy for them to meet. In such a case the sale-proceeds of the Councils can be paid into the Secretary of State's

currency chest, thereby setting free an equivalent amount of rupees in India; and

(*c*) when profits on coinage accrue in India, the Secretary of State can at any moment draw the equivalent amount from his currency chest for investment, an equivalent adjustment being made in India as between the Gold Reserve Fund and the Currency Reserve.

The Gold Standard Reserve.

16. Meanwhile in India, after several periods of high and irregular pressure caused by the heavy trade demands already referred to, it had proved necessary to take further steps as a safeguard against risks of a shortage of rupees. A reserve of silver accumulated within the Paper Currency Reserve to meet this situation developed in 1904 into the 'Ingot Reserve' consisting of a quantity of partly prepared silver sufficient for the coinage of Rs. 3 crores. During the busy season of 1905-06 the demand for silver currency was abnormal. On the 1st October 1905 there was a balance of 13 crores of coined rupees in the Currency Reserve in addition to the Ingot Reserve, and further bullion ordered sufficient to coin Rs. 280 lakhs more. In the light of previous experience this appeared to form an adequate margin of safety. In the event it proved necessary to keep the Indian Mints working at the highest possible pressure over a prolonged

period, to coin up not only the silver ordered and the whole of the Ingot Reserve, but also further large purchases of bullion. The total outturn of rupees during the year amounted to no less than Rs. 19·6 crores, but in spite of this the silver in the Currency Reserve at the close of March 1906 was only Rs. 13·6 crores, while in January it had fallen as low as Rs. 7·5 crores. It was thus soon apparent both that the Ingot Reserve was insufficient for its purpose and also that it was dangerous, as displacing in the Currency Reserve rupees which might be required at the shortest notice. It was decided therefore to build up an enlarged silver reserve out of the profits on coinage. In other words, a separate silver branch of the Gold Reserve Fund was formed; and this was brought up to its proposed limit of Rs. 6 crores by March 1907. The expedient has at times received a great deal of public criticism, and the reasons which induced Government to adopt it may therefore be briefly stated. The theoretically correct method of providing a reserve of the kind would probably be to purchase silver bullion from revenue or loan funds. These alternatives would, however, have involved either the reduction of the cash balances by £2¾ millions sterling (which was beyond their capacity to bear) or the borrowing of an equivalent amount in the open market. This would have imposed a permanent change of about £80,000 a year on Indian revenues and would

have added to the difficulty already experienced in obtaining by loans the considerable sum needed for productive capital expenditure. The permanent effect of the change was to make the Gold Reserve Fund bear the charge for interest on the capital locked up, instead of imposing it on current revenues. The growth of this fund was only temporarily and partially arrested (the interest on the gold investments continuing to be credited to it), and was again reserved on the completion of the silver branch. To prevent misunderstanding, the name of the 'Gold Reserve Fund' was changed and it was now designated the 'Gold Standard Reserve.' The constitution of the silver branch may be further justified by the fact that the primary object of the fund has always been the effective maintenance of the Gold Standard and its protection against whatever dangers may assail it. As has been previously shown, while one side of the policy consists in the maintenance of the gold value of the rupee, the Government of India have also for practical purposes accepted the obligation to supply rupees for sovereigns when tendered either in India or in England. To this portion of their policy they were now enabled to give more certain effect by the measure in question.

17. The attention attracted by this measure also led to renewed representations by the more important commercial bodies in India with regard to the

general question of the form in which the Gold Standard Reserve as a whole was held. They strongly urged that it was desirable that the Reserve should consist chiefly of a gold reserve located in India, and that it should not be invested in British securities. In reply the Government of India pointed out that a large holding in gold would mean a serious retardation of the growth of the Reserve, and that it was unnecessary at that time to assume that a fall in exchange would be simultaneous with such a marked depreciation of sterling securities in England as would justify them in accepting a permanent loss of interest. Moreover, with reference to the suggestion that the gold should be held in India, the main line of defence against the fall in exchange is the strength of the Indian Government's gold position in England. If gold is ever required to drain off a redundancy of rupees, it will be taken for the purpose of export, and the offer by the Indian Government of bills on London will be at least as effective in such an emergency as the offer of gold in India. Apart from this, a supply of gold in India is actually held in the Paper Currency Reserve in addition to a smaller floating stock in the Treasuries.

18. The year 1907 saw a further decision in connection with the Gold Standard Reserve which attracted no less criticism. In August of that year it was decided on the advice of the Indian Railway Finance Committee to devote one-half of the profits

of the rupee coinage to capital expenditure on the development of the Indian Railways, the provision of adequate funds for this object having been for several years a matter of pressing urgency. The sum of £1,123,604 was actually diverted in this manner. The events, however, which are shortly to be related resulted in a reconsideration of this decision and went far to justify the criticisms levelled against it. It must be borne in mind that from the date of the introduction of the Gold Standard up to this point the main difficulties of the Government of India had arisen in connection with the supply of silver currency; their gold resources had never been put to any practical test; and it was only possible to form, on general grounds, an estimate of the amount of gold which might properly be regarded as forming an adequate reserve. In the budget debate of 1904 Lord Curzon had tentatively suggested that a reserve of £10 millions might suffice. In January 1905 Sir E. Law, when addressing a conference of the Chambers of Commerce, suggested the desirability of aiming at a reserve sufficient to enable the Secretary of State to curtail his drawings by one-third during a period of three successive years, and on that basis named £20 millions. Sir E. Baker, who was inclined to substitute a proportion of one-half, in 1906 stated that he thought that the figure of £20 millions was the minimum amount to be attained. Sufficient data were, however, not

available to make it possible to arrive at any final decision.

19. I may here explain that the necessity for utilizing the gold reserves of the Government of India may arise in two totally distinct ways, either (1) by reason of a fall in exchange, or (2) as a result of an increased demand for gold as a circulating medium in India. Though these two factors may operate concurrently, it would not be strictly correct to regard them as aspects of a single cause. The first (which was, as already stated, that contemplated by the Currency Committee of 1898) might be due to a succession of famines or untoward political events, resulting in a serious falling-off in exports and a curtailment of the demand for the Secretary of State's bills. The second might have an entirely different origin, and be due, in part, to the greater prosperity of the people, and to the demand for a trade counter of a higher denomination, owing to a rise in prices coupled with an increase in the volume of transactions.

There are indications that in the last few years the effect of the latter group of causes has been steadily growing; and that the absorption of sovereigns in India for the purposes of circulation is steadily increasing. Though this absorption constitutes a slow but steady drain on the gold in the Currency Reserve, it is not of itself at present sufficiently large for there to be difficulty in meeting

it. Its growth is to be heartily welcomed as evidencing a gradual spread of the sovereign as a popular coin. Inroads on the gold reserves as a result of the other class of events, though of a more temporary nature, may have far more serious consequences.

The Famine of 1907 and the American credit crisis. Sale of Sterling bills on London.

20. Towards the end of 1907, and not very long after the discussions referred to in the preceding paragraphs, such events occurred. Up to August exchange had followed what had for some years been its normal course and, in spite of very heavy drawings by the Secretary of State, remained steady at a point or two over 1*s.* 4*d.* The history of the following months is of considerable interest as showing the new dangers incidental to the linking up of India with the gold exchanges of the world. A detailed account appears in the Indian Financial Statement for 1908-09, from which most of the following remarks are drawn. In August the demand for money showed signs of slackening. The explanation lay in the prospects of the jute trade. The crop was expected to be a good one, but prices had fallen greatly and buyers were holding off; and in the result, while export of the commodity fell from 16 to 14 million cwt., the value of the jute exported during the year dropped from Rs. 27 to Rs. 18 crores or by no less than Rs. 9 crores. In September it became apparent

that the autumn rains were in marked defect over a large part of India, and particularly in the wheat-growing provinces. By the end of October it was clear that the export trade in wheat would be insignificant, and that business generally would suffer the usual consequences of a severe scarcity in Northern India. To these conditions there was suddenly superadded an external complication as serious as it was unforeseen. On the 20th October the Mercantile National Bank of the United States of America was announced to be in difficulties; several big Trust companies fell in its wake; and by the middle of November a great financial crisis had developed in the United States. America fell upon the world's store of gold with all the insistence of panic. Credit was temporarily paralysed and the gold currency rose for a time to a premium of 4 per cent. Before the panic abated, over 23 millions sterling in gold had been poured into the country; and the result was to denude the available gold reserves of Europe in the most serious manner. The drain was most directly felt in London, and the Bank of England in self-defence raised its rate on the 4th November to 6 per cent. which was again raised to 7 per cent. three days later. The gravity of the crisis is shown by the fact that London had not experienced a 7 per cent. bank rate since 1873.

The effect on India was instantaneous, for the tightness of money combined with the slackening of

the export trade destroyed for the time the market for the Secretary of State's bills. On the 6th November tenders dropped to 1*s.* $3\frac{29}{32}$*d.* and he was able to sell only Rs. 30 lakhs. Thereafter for five weeks he practically withdrew from the market altogether ; but the scarcity of gold and the absence of exports continued, and exchange ceased to be stagnant and moved steadily downwards. On the 13th November it fell to 1*s.* $3\frac{15}{16}$*d.*, on the 18th to 1*s.* $3\frac{7}{8}$*d.*, and on the 25th to 1*s.* $3\frac{11}{16}$*d.* This was the lowest point reached during the crisis.

The significance of these quotations lies of course in the fact that they are below the point—in present conditions 1*s.* $3\frac{29}{32}$*d.*, for telegraphic transfers—at which it becomes profitable to export sovereigns from India, provided always that the latter can be obtained at par. This fact, coupled with the continued demand for gold for America, directed attention to India as a possible source of supply, and in the first half of November the Government was approached from more than one quarter, to ascertain whether they would be willing to issue gold freely, *i.e.*, without limit of amount, in exchange for rupees at Rs. 15 to the £. It was, of course, understood that the sovereigns were wanted for export. In spite of the theoretical arguments in favour of a liberal issue of gold as an antidote to a fall in exchange, it was felt very strongly that the depression was not due exclusively to the contraction of exports. The demand for

gold was made in part in the interest of India's own trade; but it was also due in great measure to the American crisis, and the latter factor was clearly one that had to be seriously reckoned with. The Government of India held that their interests could most effectively be protected by the stoppage of Council drawings, and this course the Secretary of State had already adopted. Moreover, their whole supply of gold was only about £3¾ millions, and this was already being drawn off at the rate of about £400,000 a month for internal consumption. Had the demand for issues been complied with without limit, the whole available supply might have been drawn off in a few weeks, and their discontinuance might then have precipitated a panic.

For these reasons the Government decided to stand by their legal rights. They are not bound to give sovereigns in exchange for rupees, except at their own convenience, and they do so primarily only to foster the internal use of gold. The Currency offices were accordingly instructed not to issue gold in larger quantities than £10,000 to any individual on any one day. This decision was much criticised at the time, and in the light of subsequent experience it may be doubted whether the free offer of gold would not have had a salutary effect in supporting exchange. The attempt to hold on to it proved ineffectual, and within a few months stocks were reduced to a

minimum, while the weakness of trade prevented any inflow from abroad.

21. Meanwhile, as stated above, the Secretary of State had virtually stopped the sale of bills. To enable him to persevere in this course until favourable tenders should be received, he on the 25th November released one million sterling of the gold in the currency chest in London (which represents exports ready made), and further sums of one million and half a million were released on the 6th and 18th December respectively. A few days later, it was arranged that, if exchange (which in the meantime had recovered) should again fall below gold export point, telegraphic transfers on London should be offered for sale in India at a fixed rate.

By the end of February 1908 this arrangement was modified, it being decided that instead of telegraphic transfers sterling bills on London should be offered at a fixed rate of 1*s.* $3\frac{29}{32}$*d.* Exchange had meanwhile shown a temporary recovery. The natural weakness of the situation resulting from the falling off of the exports of oilseeds and food grains was, however, aggravated by abnormal imports of piece-goods in response to orders given during more favourable conditions and by phenomenal speculation in silver. The position will be clear from the statement below which shows over a period of years the values of the imports and exports on private account. For convenience of reference,

figures for the Secretary of State's drawings, total coinage of rupees, and net absorption of rupees by the public are also given :—

[In crores of rupees.

	1904-05.	1905-06	1906-07.	1907-08	1908-09.	1909-10.	1910-11. (11 months).
Excluding Treasure :—							
Imports ...	97	103	108	130	121	117	116
Exports ...	158	162	177	177	153	188	187
Excess of Exports over Imports ...	61	59	69	47	32	71	71
Including Treasure :—							
Imports ...	130	124	136	163	144	154	151
Exports ...	166	168	183	183	159	194	194
Excess of Exports over Imports ...	36	44	47	20	15	40	43
Secretary of State's drawings ...	36	48	50	24	8*	41	35
Net absorption of rupees ...	7·7	14·3	16·8	3·8	—16·0*	14·3	2·9
Coinage of rupees ...	10·9	19·6	25·4	17·3	2·5	2·1	2·1

* The 1908-09 figures for the Secretary of State's drawings are *net*, after deduction of Rs. 12 crores, being the sale proceeds of sterling demand drafts on London. In the same year, as regards the absorption of rupees, the minus sign indicates a return from circulation.

22. By the end of March 1908 exchange again fell below specie point, and it now became necessary for the Government of India to come forward

to support it on the lines which they had previously laid down. From the beginning of April they undertook to sell Sterling bills on London to the extent of £500,000 a week, at 1*s.* $3\frac{29}{32}$*d.* to the rupee. The amount was increased to £1,000,000 on occasions when the market seemed to require additional assistance. The bills remained on offer till the end of August; by this time a tardy curtailment of imports had at last set in, a favourable monsoon encouraged hopes of a good spring harvest, outward trade showed signs of revival and the demand for sterling remittances ceased.

During the five months, April to August 1908, sterling bills were sold for a total amount of £8,058,000. The par value of the bills was paid into the silver branch of the Gold Standard Reserve in India, the Secretary of State making corresponding withdrawals of gold from the Reserve in London. By this means it was found possible to withdraw from circulation no less than Rs. 12 crores. This result was not however obtained without considerable cost, and the struggle imposed a severe strain on the gold resources of the Indian Government. In London the sovereigns in the currency chest were reduced from £7 millions to £1½ millions; Reserve securities to the value of £8,100,497 were put on the market; and all interest on investments was paid away as it accrued. In India the entire stock of gold was exhausted. In October 1907 when the trouble

began, the currency chests, treasuries and mints held 4¼ millions of sovereigns. On March 31st 1908 the stock had fallen below £100,000 and all further issues had been stopped. All that remained in reserve when exchange reached a normal state were securities of the face value of less than £6½ millions, and a currency balance of £1¾ millions in gold and £1⅓ millions in securities, both held in London.

In addition to the above the output of the Indian Mints had been curtailed as soon as exchange had begun to set against India in November 1907. The coinage of bullion in store was proceeded with until the beginning of April 1908, but then all work, both on purchased silver and the reminting of withdrawn rupees was stopped. Since then there has been no coinage of new silver, though the reminting of uncurrent coin has been resumed.

Criticisms regarding the Gold Standard Reserve.

23. The above events necessarily again focussed the attention of the public interests concerned on the whole question of the Government of India gold reserves. A strong body of commercial feeling in India considered that it was neither just nor proper nor fair to India that the reserves should be held so largely in London; and further that the bulk of the reserve should be held in specie, for the reasons that in a serious crisis it

will probably not be possible to realise securities readily or without considerable loss, and that the urgent need is for an increase of the stock of gold available to the markets of the world; a sale of securities does not in any way augment the available stock of gold, but merely transfers a portion of it from one quarter to another. The diversion of a portion of the profits on coinage to railway expenditure had been taken exception to from the first.

As a result of the experience now gained it was decided to discontinue this diversion and to pay the whole of the profits on coinage, together with the interest accruing on investments, without reservation into the Gold Standard Reserve until such time as the gold held in that Reserve and in the Paper Currency Department combined reaches the figure of £25 millions sterling. It was considered that the gold resources of the Government of India will then be sufficiently strong to carry them over not one but two years of short exports, and to keep exchange stable through at least twice the period during which they supported it in 1908. The Finance Member of the Viceroy's Council stated in 1910:—"I do not say that even then we should regard our position as absolutely clear, but what I have indicated seems as much as we need aim at for the present."

In discussing the question of the location of the gold reserves, the Financial Secretary, in the course of the Indian budget debate of 1911-12, justified the

decision to hold the bulk of these in London. This, he suggested, is not only tenable but also has a sound substratum in the region of international finance. "The location of our gold reserve in London, with the exception of that small portion of it which as liquid gold finds its way into our Indian currency chests in years of high exchange, is deliberate. It is intended to strengthen us and simplify our duty in maintaining the gold value of the rupee. What we do is to maintain the parity of the rupee by keeping gold where gold is most wanted and is likely to be most useful to us. Now if gold were effectively wanted in India, if India could keep gold in circulation and export gold coin privately in large quantities when exchange threatens to fall, then in those circumstances our duty would be accomplished and our task would be lightened. But we know that those circumstances do not obtain. We have not yet a substantial gold circulation in India, and we never see any substantial private export of gold from India when our silver exchanges begin to fall. On the other hand, in London we have our gold ready exported; we have it immediately or almost immediately available to support our exchanges; we have it earmarked as the sole and exclusive property of India and as capable of being used for the interests of India in the greatest gold market of the world."

As regards the form in which the gold reserve should be held, it is not the case that any net loss

was incurred by the sale of the securities which it was necessary to realise. The official figures show that the book loss so incurred during the critical period dealt with was £146,831 only, against an amount of £1,682,054 accrued from interest, including discount on Treasury bills. Though, however, the criticisms made have not been justified in their entirety, it has been thought desirable to hold a portion of the Reserve in a somewhat more liquid form. For the future the Secretary of State has agreed to keep £1 million sterling uninvested, letting out this sum in short loans or putting it into bank deposits. Of the balance he will hold a considerable portion in high class securities with a near date of redemption and the remainder in Consols or other approved stock.

Mention may be made here of certain other criticisms which have been directed against the Government of India's currency policy. It has from time to time been alleged that the heavy coinages of rupees from 1900 to 1907 inclusive were redundant and consequently responsible for the large rise of Indian prices in recent years, and also that Government might have done more to popularise the use of gold. A further reference to these matters will be found in Chapter IX, where the connection between the volume of the rupee currency and rupee prices in India is examined.

The statement on the opposite page shows the form in which the Gold Standard Reserve was held on the 31st December 1910. With the exception of the Consols, Transvaal, Local Loan, and Irish Land Stock, these are short term securities, the British Treasury bills to the amount of about £4 millions sterling maturing early in 1911, and the remaining bonds within the next few years.

Recent events.

24. To revert to the sequence of events following the difficulties of 1908, by September of that year the corner had been turned, and, with the return of normal conditions, the Secretary of State was able to make steady drawings. There was a temporary weakness in August 1909, but exchange recovered sharply with the renewal of the offer of Sterling bills on London. Only £156,000 of such bills were sold and the strong demand for currency enabled the Secretary of State to sell heavy amounts of bills and telegraphic transfers at steadily advancing rates. The total amount of his drawings during 1909-10 was Rs. 41 crores against Rs. 8 crores in the previous year if the amount of the Sterling bills sold be deducted. In spite of this they were insufficient to meet the demand for remittances to India, and the Exchange Banks were compelled to send large quantities of sovereigns from London, Egypt and the Continent. The

Statement showing the form in which the balance of the Gold Standard Reserve was held on the 31st December 1910.

		Nominal value.	£
1.	Rupees in India equivalent to		2,534,302
2.	Cash placed by the Secretary of State for India in Council at short notice ...		1,437,425
3.	Securities :—	£	
	British Government 2½ per cent. Consolidated Stock	4,665,770	
	3 per cent. Local Loan Stock ...	200,000	
	3 per cent Transvaal Government Guaranteed Stock ...	1,092,023	
	2¾ per cent. Guaranteed Stock, Irish Land	438,720	
	3 per cent Exchequer Bonds (1912)	600,000	
	3 per cent Exchequer Bonds (1915)	3,750,600	
	Canada Government 3¾ per cent. Bonds	489,000	
	Canada Government 4 per cent. Bonds	81,000	
	Corporation of London 3¼ per cent. Debentures	100,000	
	Corporation of London 3½ per cent. Debentures	45 000	
	Cape of Good Hope 4 per cent. Bonds	107,500	
	New Zealand 3½ per cent Debentures	45,000	
	New Zealand 3¾ per cent. Debentures	45,000	
	New South Wales 3½ per cent. Inscribed Stock	113,000	
	New South Wales 4 per cent. Bonds	4,000	
	Queensland 4 per cent. Inscribed Stock	10,000	
	Queensland 4 per cent. Bonds ...	17,000	
	British Treasury Bills	3,900,000	
		15,703,613	
	Cost Price		15,134,350
	Total ...		19,106,077

revived demand for silver currency which these operations reflect not only raised the depleted gold in the Currency Reserve in India from Rs. 3 lakhs to over Rs. 9 crores, but also made it possible to replace by gold the whole of the silver held in the Gold Standard Reserve in excess of the nucleus of Rs. 6 crores.

The following year, 1910-11, saw a continuance of favourable trade conditions. It is not yet possible to give complete figures for the year, but even in the first nine months the exports on private account exceeded the imports in value by nearly Rs. 36 crores, a figure which has never been approached in the same period before. Exchange was consequently strong and Council bills for over Rs. 25 crores were sold at rates above *par*. It may be noted that, though the balance of trade in favour of India during the period in question was about Rs. 8 crores higher than in the corresponding periods of 1905 and 1906, the amount of Council bills sold was considerably smaller. As is explained in Chapter III, various considerations must be taken into account in tracing the relation between the amount of Council bills sold and the figures of India's private trade. The divergency of the figures is however large, and in the Indian Financial Statement for 1911-12 it is suggested that this points to some change in the ordinary routine of Indian external finance and that, though the year's

requirements may have been somewhat freely discounted by the unusually heavy remittances at the close of the preceding year, other causes also must have been at work, and, if the movement is not merely a temporary phenomenon, its development may be full of interest.

Another remarkable feature of the trade requirements of the year was a striking economy in the use of rupees. In previous years in which a large excess of exports over imports was financed by heavy Council drawings and imports of sovereigns, the absorption of rupees was correspondingly high. In 1910-11, however, the absorption of rupees has, up to the time of writing, been relatively very small in view of previous experience under similar trade conditions, and has resulted in an unexpected strength in the silver position of the Government of India. This phenomenon is possibly associated with another to which attention was also drawn by the Finance Member, *viz.*, the relatively small import of sovereigns as compared with the gold bullion during the first nine months of the year. India has always been a large absorber of the precious metals (see Chapter IX, paragraph 1) and the increased demand for sovereigns in recent years has already been referred to. In the first nine months of 1910-11 the total import of gold was approximately £10 millions in value, of which less than £3 millions were in coin. The bulk of this amount appears to

have passed straight into consumption. In the following two months imports of sovereigns amounting to over £4 millions caused a substantial increase in the gold held in the Paper Currency Reserve in India, but it is clear that, as a result of the growing absorption of sovereigns, this reserve will in future require constant replenishment by imports of gold.

The extent to which the coined gold imported passes into active circulation is necessarily a matter of surmise, but that, from whatever cause, a quantity of hitherto inert silver coinage has been brought into use during the last year or so, seems incontestable, and to that extent the necessity for further additions to the coinage has been temporarily averted. It may be noted in this connection that Mr. Reginald Murray, a well-known writer on Indian banking subjects, in a paper read before the Indian Section of the Royal Society of Arts in January 1911, estimated that the total increase of deposits in banks in India during the last twenty years has been not less than Rs. 50 crores, and that in addition the capital and reserves of local banks have increased by over Rs. 6½ crores. He suggested that the inference may be drawn that a considerable part of this large sum of money thus put into circulation has come from hoards, or money privately stored, and that this inference stands good even after allowing for the larger volume of sterling money now lying

temporarily in India attracted by the effective working of the Currency System.

I give below for convenience of reference a statement showing the gold (in India and England) and silver held in the Paper Currency Reserve, and the rupees held in the silver branch of the Gold Standard Reserve at different periods.

Date.	Paper Currency Reserve.			In crores of rupees to two places of decimals.
	Silver held in India.	Gold held in india.	Gold held in England.	Rupees held in the silver branch of the Gold Standard Reserve.
March 31st, 1894 ...	22·41			
,, 1895 ...	22·70			
,, 1896 ...	17·94			
,, 1897 ...	13·75	*Nil.*		
,, 1898 ...	14·51	·26		
,, 1899 ...	15·15	3·05		
,, 1900 ...	5·24	11·25	2·25	
,, 1901 ...	9·42	8·67		
,, 1902 ..	11·13	10·54		
,, 1903 ..	10·93	14·79		
,, 1904 ...	11·50	16·18		
,, 1905 ..	11·36	16·11		
,, 1906 .	13·58	5·74	10·57	
,, 1907 ...	13·70	5·50	10·54	6·00
,, 1908 ...	25·18	4·07	5·56	6·00
June 30th, 1908 ..	27·17	1·93	4·06	12·34
Sept. 30th, 1908 ...	28·63	·65	2·56	18·08
Dec. 31st, 1908 ...	27·64	·18	2·25	18·65
March 31st, 1909 ..	31·12	·4	2·25	15·88
June 30th, 1909 ...	34·95	·2	2·25	11·68
Sept. 30th, 1909 ...	36·46	·3	2·25	11·68
Dec. 31st, 1909 ...	31·25	2·67	2·25	7·18
March 31st, 1910 ...	29·28	9·30	3·75	3·80
June 30th, 1910 ...	32·07	6·43	6·37	3·80
Sept. 30th, 1910 ...	33·83	3·82	6 37	3·80
Dec. 31st, 1910 ...	27·62	3·60	6·37	3·80
March 31st, 1911 ...	26·16	9·28	7·57	2·90

25. It is now possible to review the position as a whole.

(1) When the sovereign was made legal tender it was recognised that the ideals to be aimed at were to ensure that rupees should always be available in exchange for gold at par, and conversely that gold should be similarly obtainable in exchange for rupees. A third aim to be kept steadily in view was the establishment of a gold currency. When gold was in free circulation in the principal centres of trade, in such quantities that the demands of importers and exporters could be met by the Banks instead of through the medium of the Government, the form as well as the substance of "management" would disappear.

(2) As has been explained, the Government of India have practically undertaken to give silver for gold; they have also promised to arrange to give gold for rupees as far as possible, though they considered that it would be dangerous at the outset to undertake any obligation to do so. Actually, however, the first difficulties experienced were caused by the enormous demand for rupees that followed the initiation of the policy. Failure to meet this demand would have laid the whole system open to justifiable criticism as being defective in its first essential, namely, the supply of the form of currency which is its basis. To ensure against such failure it was necessary to take every precaution not absolutely inconsistent with

reasonable safety in the event of a demand for gold setting in.

(3) At the moment when the Indian Government appeared to have made their position in this respect secure, the demand for silver currency temporarily ceased with startling abruptness, and the pendulum swung suddenly in the other direction. It was necessary to fall back on the gold reserves which had accumulated during the fat years. Some anxious moments followed. Fortunately the period which had elapsed since the introduction of the Gold Standard had made it possible to build up a reserve sufficiently strong to tide over the crisis. The system was necessarily an experiment, and though it was devised on the basis of the most skilful expert advice, experience has naturally resulted in various improvements in the details of its administration. In the result a practically stable exchange has been secured which has brought relief alike to trade and to the Government finances.

(4) The main object of the policy has thus been attained. It is however interesting to speculate how far finality has been reached. The originators of the scheme contemplated as the ultimate aim an effective gold currency with the Indian Mints open to the free coinage of gold. The absorption of sovereigns has been steadily increasing in recent years, and, though it is not possible to estimate how far these are melted down or hoarded and how

far they are in active circulation, there are grounds for believing that such circulation, though not yet very substantial, is growing and that the way is thus being paved for a further advance. It is not impossible that this advance might be expedited should it be decided to accept gold for coinage at the Indian Mints, a question which the Finance Member has recently promised to examine further. In this connection Sir Vithaldas Thackersey suggested, during the course of the Indian budget debate in March 1911, the adoption of a Rs. 10 gold coin. There is, I think, room for considerable doubt whether it would be advisable to adopt a coin of this denomination in preference to the sovereign. Even if ten-rupee pieces were freely used, it is questionable whether it would be possible either for Government or the natural operations of trade to reach them when gold was required for export; and they would also be less suitable than sovereigns for such a transaction. Thus the Government stock of gold would be dissipated and the uniformity of their gold coinage with Great Britain and her other possessions abandoned to no purpose.

It is probable that the attainment of an effective gold currency would have another incidental result. The stocks of gold held in the Paper Currency Reserve are, as has been explained, determined by the amount of rupees which it is necessary for the Government to hold to enable them to meet the

requirements of trade. An effective gold currency would imply that the trade demand for rupees was to a considerable extent replaced by an increased demand for sovereigns for trade transactions. Should this happen, there would be obvious advantages in holding a greater proportion of the Currency Reserve in gold. It would, in fact, automatically become necessary to adopt this course, and this would moreover place India in an additionally strong position against a possible fall in exchange.

CHAPTER II.

INDIAN IMPORT AND EXPORT STATISTICS.

The question of the deductions which can properly be drawn from Import and Export figures is probably nowhere more fully or more carefully examined than in the late Sir R. Giffen's paper, "The use of Import and Export Statistics," published in his "Economic Inquiries and Studies," Vol. I. He there notes the following as being the more important points to be considered in using trade statistics for comparative and other purposes :—

(1) The degree of accuracy obtained in the original data both as to quantities and values.

(2) The difference of method by which the data of values are obtained in different countries.

(3) The periodical variations in price to which commodities are liable.

(4) The difficulty in using the statistics of imports and exports so as to show normal progress or retrogression which arises from the disturbing influences of great economic events.

(5) The different character intrinsically of the foreign trade of different countries.

2. The last two points are more important when it is desired to make use of statistics of the kind for comparative purposes. Instances of (4) are the effects which famines within India have on her large export of food grains, and the disorganising results of the American credit crisis of 1907 to which I have elsewhere drawn attention. The point referred to in (5) is the different extent to which different countries possess a large shipping trade, or carry on a transit trade, or include among their exports articles manufactured from raw materials. A discussion of comparative statistics would however be beyond the scope of this book, and I therefore confine myself to a brief explanation of the basis on which Indian trade statistics are prepared, of the extent to which the first three points mentioned in paragraph 1 apply to them, and of the necessary limitations which attend them in common with the statistics of other countries.

3. I will describe first the basis on which values are calculated. The "real value" which importers or exporters must declare is defined in the Indian Sea Customs Act to be:—

(*a*) the wholesale cash price, less trade discount, for which goods of the like kind are sold, or are capable of being sold, at the time and place of importation or exportation, as the case may be, without any abatement or deduction whatever, except (in the case of goods imported) of the amount of the duties payable on the importation thereof, or,

(*b*) where such price is not ascertainable, the cost at which goods of the like kind and quality could be delivered at such place, without any abatement or deduction except as aforesaid.

In other words, in the case of articles in which large transactions are sufficiently numerous for there to be a recognised wholesale market rate for the article, that price must be given, less the trade discount and, in the case of imported articles, the duty. In such cases the value to be shown for imported articles will not necessarily be the cost at which the importer has been able to land them in India. For instance, imported piece-goods are ordinarily sold by the importer to large wholesale dealers, who again dispose of them by wholesale transactions. It is the price at which the latter transactions take place which determines the value which should be declared.

Where no such wholesale market price is ascertainable, the value taken will ordinarily, for articles for which a *bonâ fide* invoice can be produced, represent the invoice value *plus* insurance, freight and landing charges.

4. In the case of imported articles assessed to duty on an *ad valorem* basis great care is exercised in checking these valuations. But it is obviously impossible to ensure that, in all cases, a cent. per cent. valuation is obtained. An undervaluation of one per cent. would amount to only one anna in Rs. 6-4, or one penny in 8*s*. 4*d*. Nevertheless,

in utilising the Indian figures in connection with the balance of trade, it is probably safe to disregard errors arising in this way from a failure to correct undervaluations made by importers. Such errors will be largely counterbalanced by the fact that, for important articles such as cotton piece-goods, the real value assessed on the basis explained above will necessarily usually be in excess of the amount remitted to the shipper to pay the cost of the goods, packing, freight, and insurance, which is strictly speaking what India actually pays for the articles.

5. All goods are not, however, assessed to duty in this way. Some important articles like railway material and machinery, come in free. A few, including salt, silver, petroleum, wines and spirits and tobacco, pay specific duties on their quantities. For a large number a tariff valuation is fixed in December of each year for the following calendar year. The average course of prices in the months immediately preceding necessarily forms the basis of such valuations, but all available information bearing upon the prices which will probably rule is taken into account; thus, for example, the rate at which large forward business has been done would not be ignored. This arrangement is a convenient one both for the Government and importers as it obviates friction and disputes regarding valuation, and it is adopted in the case of a great variety

of articles of a fairly uniform description of which the import is large, such as sugar, metals and manufactures of metals, articles of food and drink, chemicals, drugs, spices, etc. For all these classes of goods (and also for exported articles) the same scrutiny of the values is not essential, inasmuch as the duty assessed is not dependent on the declared values. While, therefore, due care is, of course, exercised in order to ensure that the declared values are, so far as possible, correct for statistical purposes, it is possible that there is more room for error than in the case of imported articles assessed on an *ad valorem* basis.

6. In the case of articles in which considerable transactions take place and in the prices of which large fluctuations occur (*e. g.*, cotton piece-goods and sugar among imports and raw jute among exports) the market price may vary considerably within short periods and even within one day. It is therefore apparent that there may frequently be considerable difficulties in determining the price which should properly be taken as the market price. As, in fact, I have already pointed out, in the case of goods assessable to duty on an *ad valorem* basis, importers will, and quite legitimately, take the view of the market rate most favourable to their own interests. In the case of other imports and of exports it would not be reasonable to expect that merchants should do more than declare the values which they believe

to be approximately correct; and for a Customs authority to apply the same rigorous scrutiny to every such declaration as would be adopted in the case of a declaration affecting revenue, would involve undue inconvenience to trade.

7. The above remarks can be most simply explained by a concrete example. I give on page 56 in a tabular form particulars of the imports into Calcutta of Java sugar of Dutch standard 16 to 22, for each month of the calendar year 1910. This sugar is assessed to duty on a tariff valuation basis, the rate fixed for 1910 being Rs. 9 per cwt. The table shows for each month the average market rate (*cum*-duty) of such sugar as ascertained by independent inquiries at the time, the value of the sugar at these rates, and also the *net* (i.e., *ex*-duty) values declared by importers.

Sugar showed an unexpected rise in price in the earlier months of the year and an equally unexpected drop towards the close. Though, therefore, the valuation adopted was slightly in favour of the importers, it approximated on the whole very closely to the average price fixed for the whole year. The table is incidentally interesting as showing the inaccuracies which may arise from applying to the total transactions for a period the average price for the whole period without reference to the magnitude of the transactions which have taken place in different portions of the period. The average price at the foot of column 2 of the table

Month.	Cum-duty market rate.	000's omitted.		
		Quantity imported.	Total value.	Declared ex-duty value.
1	2	3	4	5
	Rs. A. P.	Cwt.	Rs.	Rs.
January ...	9 14 0	190	18,72	18,38
February ...	10 6 0	138	14,34	12,84
March ...	11 6 0	215	24,49	21,30
April ...	11 5 0	99	11,17	10,64
May ...	11 5 0	33	3,65	3,59
June ...	10 8 0	59	6,22	6 01
July ...	10 4 0	142	14,59	13,67
August ...	10 8 0	202	21,21	20,14
September ...	9 6 0	634	59,41	62,00
October ...	9 6 0	571	53,54	51,56
November ...	8 11 0	337	29,25	28,56
December ...	8 10 0	253	21,84	20,94
Totals ...	...	2,873	2,78,43	2,69,63
Average value per cwt.	10 1 8	...	Rs. 9-11-0	...
Do. less 5% duty	9 9 7	...	Rs. 9-3-3	Rs. 9-6-2

is for this reason obviously misleading. The divergencies between the values shown in columns 4 and 5 (apart from the fact that one column includes the amount of the duty while the other does not) may be to some extent due to the same cause, inasmuch as the figures in column 4 have been arrived at by the application of an average monthly valuation independently ascertained, whereas those in column 5 represent the sum of the values declared and accepted for the actual consignments

arriving. The net difference in the *ex*-duty valuations for the whole year at the foot of these columns is one of 2 per cent. only, but an error of even this small percentage is very important when large sums come to be dealt with in inquiries regarding the balance of accounts between different countries.

8. Moreover, as I have incidentally suggested above, statistics of import values would only be correct for the purpose of arriving at the true figures for the balance of trade were it possible in each case to ascertain the prices actually paid by an importing country for its imports. These are not, however, the values actually taken in India, and, in fact, in the case of a large volume of her imports, as for instance consignment or monopoly goods, it would be impossible to ascertain the price paid by her for them. Similarly, in the case of exports, for a strictly correct balancing of the account it wuold be necessary to arrive at the exact figure paid to India for them. This again is not done, nor would it be practicable in the large majority of cases. To take, for example, the great volume of opium exported. This is a large speculative trade, and it would be impossible to ascertain the amounts realised by the exporters for the sale of their opium. In practice, the price paid by the merchant for the opium at the Government opium sales is the figure taken. Again, in the case of tea the prices declared are those realised at the

Calcutta sales. For "sold tea" these will be the prices at which the shipments in question have changed hands. Garden teas are frequently the property of a sterling company in the United Kingdom and are exported by that company without any sale transaction in India; for such teas the prices realised for similar qualities of sold teas at the most recent Calcutta auction are accepted as correct.

9. It may be mentioned that the figures of Indian imports and exports are necessarily not exhaustive. They leave out of account the trade, partly unregistered, carried on by the French and Portuguese Settlements and by the ports in the Native States on the west coast of India, the not inconsiderable value of stones and pearls re-exported through the parcel post, and cash and articles of jewellery, etc., brought into and taken out of the country by residents or travellers. The effects of smuggling on the returns is probably not sufficiently important to be taken into account. With the above exceptions the figures for quantities may be taken as approaching as closely to accuracy as is, for all practical purposes, necessary. Imports are scrutinized and accounted for with the greatest care. The exports consist mainly of a limited number of articles of a uniform description, and their quantities are thus easily verified. Thus in 1909-10 the exports of wheat, rice and other food grains, seeds, tea, raw cotton and cotton

yarn, raw and manufactured jute, hides and skins, opium and treasure formed more than five-sixths of the export trade.

10. Apart from the difficulty which temporary fluctuations in the prices of commodities cause in arriving at correct valuations of imports and exports at any particular time, the periodical variation in prices as between different years is in itself an important matter to be considered in the subsequent use of the statistics after their preparation. As regards particular articles, variations in price do not much matter if quantities are also given. But when articles are grouped, values must be used, as they must also be used in showing aggregate trade, and here fluctuations in prices are of much importance. The extent to which such fluctuations have occurred in India's trade in recent years can fortunately be illustrated from a most interesting note, compiled by the Director-General of Commercial Intelligence. This shows, for each of the seven years ending with 1909-10, the estimated value of the imports and exports of British India at the prices prevailing in 1903-04, a normal year without marked seasonal adversity. For a certain number of articles only the values and not the quantities are available, but this proportion is in the case of exports practically negligible. In the case of imports the proportion is fairly constant throughout the period at about 20 per cent.

YEAR.	Values as declared.	Percentage of total import or export trade.	Values at prices of 1903-04.	Variations in the declared values (the values of 1903-04 = 100).
		Imports.		
	Rs.		Rs.	
1903-04	68,04,49	80	68,04,49	100
1904-05	79,08,32	82	56,09,26	114
1905-06	83,40,07	81	68 34,49	122
1906-07	85,14,67	79	68,73,71	128
1907-08	100,96,51	78	70,58,71	153
1908-09	92,80,73	77	83,73,50	143
1909-10	91,81,11	78	85,60,74	138
		Exports.		
1903-04	148,25,56	99	148,25,56	100
1904-05	152,63,23	99	153,17,91	103
1905-06	156,58,12	99	146,82,30	106
1906-07	171,36,03	99	145,16,20	116
1907-08	171,59,44	99	147,80,72	116
1908-09	147,91,68	99	132,66,58	100
1909-10	182,65,48	99	154,92,67	123

11. Eliminating the effect of price variations, we find that the actual increase during the period in the volume of the imports (including re-exports) for which quantities and values are recorded is 26 per cent. and that of exports 4 per cent. In the case of imports (including re-exports) increased prices account for 19 per cent. and increased quantities for 81 per cent. of the rise in total values, while in the case of exports increased prices account for 80 per cent. and increased quantities for the remainder. The variation in values may be expressed in the form of index numbers. The table below has been prepared to show how index

numbers worked out on this basis for Indian exports compare with those for :—

(*i*). The special Indian index * number compiled by the Indian Commercial Intelligence Department for articles exported and consumed.

(*ii*). The general Indian index * number for all the selected articles.

(*iii*). Mr. Atkinson's index number for silver prices.

(*iv*). Mr. Sauerbeck's index number for gold prices.

For the purpose of the comparison the figures of all the series have been equated to 100 for the first year taken. It must be explained, in connection with this table and those immediately following, that the Indian index numbers for prices and Sauerbeck's numbers are for the calendar year, while the export value index numbers are for the Indian financial year, *viz.*, 1st April to 31st March.

YEAR.	Variations in export values.	Special Indian Index number for articles exported and consumed.	India's General Index numbers.	Atkinson's Index numbers.	Sauerbeck's Index numbers.
1903-04	100	100	100	100	100
1904-05	100	101	102	98	102
1905-06	107	113	112	109	105
1906-07	118	135	130	128	111
1907-08	116	141	138	136	116
1908-09	111	147	140	146	106
1909-10	118	130	125	...	108

* See Chapter VI for some further information regarding these numbers

12. It is interesting that the variations in the export value index numbers tend to approximate to those of Sauerbeck's numbers rather than to those of the other Indian series. General comparisons of this kind are, however, apt to be misleading, and I add also similar tables for certain selected articles in the Indian export trade. The prices on which the Indian index numbers for the different articles are based are as follows :—

Rice.—Average annual retail price based on half-monthly figures for 11 selected stations.

Wheat.—Average annual retail price based on half-monthly figures for 17 selected stations.

Jute.—Calcutta price current for ordinary jute.

Linseed.—Average—Bombay Chamber of Commerce current quotation—Calcutta price current.

Rice.

EAR.	Quantity. Cwt. 000's omitted.	Value. Rs. 000's omitted.	INDEX NUMBERS.		
			Indian Export value.	Indian Retail Price.	English value, Sauerbeck.
1903-04	45,005	19,08,49	100	100	100
1904-05	49,489	19,62,04	94	92	92
1905-06	43,045	18,64,00	109	106	93
1906-07	38,715	18,52,95	114	131	101
1907-08	38,257	20,33,91	127	143	114
1908-09	30,255	15,89,03	124	159	106
1909-10	39,208	18,24,45	110	137	99

Wheat.

Year.	Quantity. Cwt. 000's omitted.	Value. Rs. 000's omitted.	Index Numbers.			
			Indian Export value.	Indian Retail Price.	English Sauerbeck.	American Sauerbeck.
1903-04	25,911	11,08,90	100	100	100	100
1904-05	43,001	17,90,61	97	95	106	109
1905-06	18,750	8,53,44	106	110	112	111
1906-07	16,029	7,25,45	105	120	106	105
1907-08	17,609	8,58,50	113	130	114	116
1908-09	2,195	1,34,01	143	175	120	122
1909-10	21,011	12,70,91	141	157	139	135

Jute.

Year.	Quantity. Cwt. 000's omitted.	Value. Rs. 000's omitted.	Index Numbers.		
			Indian Export value.	Indian General Index No.	English value, Sauerbeck.
1903-04	13,721	11,71,81	100	100	100
1904-05	12,875	11,96,56	109	96	104
1905-06	14,483	17,12,57	139	121	137
1906-07	15,970	26,83,87	198	172	175
1907-08	14,192	17,97,28	149	165	156
1908-09	17,880	19,83,46	130	112	115
1909-10	14,608	15,08,83	121	95	96

Linseed.

1903-04	8,616	5,74,42	100	100	100
1904-05	11,182	6,32,87	84	78	81
1905-06	5,789	4,11,55	106	85	94
1906-07	4,379	3,25,99	111	107	106
1907-08	6,198	4,78,67	115	102	112
1908-09	3,210	2,55,53	119	111	112
1909-10	4,677	3,92,53	126	115	122

In the case of rice and wheat, for which the Indian index number represents the retail price

in India, the variations in the export value numbers show an interesting interdependence between this and the other series. The export values are naturally governed in each case to a large extent by prices prevailing outside India, but they are also necessarily affected by those ruling within the country. Attention may be drawn to the extent to which the higher English and American prices for wheat in 1904, coupled with the fall in prices in India resulting from the bumper crop in that country, stimulated the export of the large proportion of the crop produced in excess of Indian requirements. Similarly, in 1908-09, the high price of wheat in India which followed the restricted outturn of 1907-08 operated immediately to curtail export. In the case of the other two commodities the Indian general index number is for the wholesale price. Here the general trend of the different series is more or less similar for each article though there is not an exact correspondence in the numbers for particular years. The divergencies are in part attributable to the fact that the periods dealt with are not identical for the three series, and in part to the cause discussed in paragraph 7 above, *viz.*, the fact that in the case of the numbers for export values the magnitude of the transactions at different prices are automatically taken into consideration, whereas the other series are necessarily based on average values only.

13. I think that I have said enough to show that in the preparation of trade statistics there are necessarily limitations which make absolute accuracy impossible. The Indian figures probably approach to accuracy as nearly as those of any other country. But, in using them to form any deductions in connection with the balance of trade, we must bear in mind the qualifications to which they are subject. There is also another well-recognised difficulty in the use of trade statistics to which a brief reference may be interesting, though it is of a somewhat different nature to those dealt with above. This is the difficulty of making the data complete as regards particular countries traded with. The main returns of India's trade with other countries at present group* the figures for imports according to the country of shipment and those for exports according to the country of discharge. Supplementary tables give information regarding the countries of "consignment" and "final destination" respectively. In spite, however, of the willingness of merchants to give correct information, there can be no doubt that the results are still obscured by incomplete returns. As an example of this the Indian figures for the

* It has recently been decided to adopt the method of registration of Indian trade statistics according to the countries of consignment and final destination as a permanent arrangement in the main returns. The change came into force on the 1st April 1911, when the old system of registration was abandoned.

official year 1908-09 show the value of goods discharged at ports in the United Kingdom but finally destined for ports in other countries as £136,000 only. The United Kingdom returns for 1908 show a value of nearly £3,000,000 for goods so discharged. It could not, of course, be expected that the value of the goods declared in England, which would include the cost of carriage from India, would exactly correspond with the values declared at the time of their export from India; and, moreover, it is true that in one case the figures for the calendar year and, in the other, those for the official year have been taken. These facts are, however, quite insufficient to account for the large discrepancy. The correct explanation is uncertain. But it may be mentioned, that large quantities of goods are exported from India for foreign countries *viâ* the United Kingdom, this involving a transhipment in an English port. In such cases when, as frequently happens, there is a through bill of lading, the Indian exporter may (in spite of the intermediate transhipment) quite correctly declare the foreign port as the port of discharge. I am not fully aware of the method in which such transactions are shown in the returns of the United Kingdom, but it seems probable that consignments forwarded in this way would be included in the values of goods discharged in the United Kingdom but finally destined for ports in other countries. In the Indian returns on the other

hand, the intermediate transactions in the United Kingdom would not appear and the goods would simply be included in the figures of exports to the foreign country in question. It must also be remembered that England carries on a large amount of through trade and it is probable that a merchant, on whose account goods have been shipped from India, often finds on their arrival in England that his most profitable market for them is, say, the United States, and that he may therefore decide at once to forward them to that country. In such a case the transaction would necessarily in the Indian statistics be included in the figures for exports to the United Kingdom. In fact, the information necessary for a correct recording of the transaction might never be available in India.

CHAPTER III.

THE SECRETARY OF STATE'S DRAWINGS AND THE BALANCE OF TRADE.

As I have already pointed out (Chapter I, para. 14) the actual amount drawn on India by means of Council bills in any year is not determined solely by the net expenditure incurred in England chargeable to Indian revenues. It is settled after consideration of a number of more or less complicated transactions which regulate the adjustment of revenue to total expenditure of all kinds (*vide* Imperial Gazetteer of India, Vol. IV, p. 196). In brief it may be said that the sum to be drawn to meet the requirements of the Government of India for expenditure in England is determined by deducting from the total of such expenditure the borrowings in sterling in London.

2. The amount so determined at the time of the Budget is not necessarily adhered to. The demand for remittances to India in connection with the export trade has in recent years usually been largely in excess of the budgeted requirements of the Secretary of State for payments in sterling in England. As has been explained above (Chapter I, para. 14), it has been for some years past the expressed policy of the Government of India to meet trade demands of the kind as far as may be possible; and the amount of Council bills and

telegraphic transfers put up for tender at the Secretary of State's sales is fixed week by week with reference to the demand for remittances to India as evidenced by the amount of tenders and the rates offered. It may be mentioned that the lowest point at which the Secretary of State will sell bills is 1*s.* $3\frac{29}{32}$*d.*, which figure has been adopted as representing approximately the "gold export point" from India. This means that when demand drafts on London are not obtainable at or above this rate sovereigns are shipped home. The difference of $\frac{3}{32}$nds from the par value of the rupee corresponds roughly to the cost (*viz.*, freight, insurance, etc.), that would be incurred by remitting gold from India to England in settlement of the Government of India's liabilities in that country. When exchange falls below this point the Government of India has undertaken (Chapter I, para. 21) to sell Sterling bills on London at this rate. It may be noted that 1*s.* 3⅞*d.* is occasionally referred to as the gold export point. The Government of India have possibly, in their desire to maintain effectually the parity of the rupee, taken a somewhat liberal view of the figure to be adopted. There is a similar limitation to the movement of exchange in the other direction. When exchange passes gold point, *viz.*, approximately 1*s.* 4⅛*d.* for demand drafts London on India (or 1*s.* $4\frac{5}{32}$*d.* for telegraphic transfers) it is more economical for remitters to ship gold from England to India than

to purchase Councils. These figures are necessarily approximate only, as various technical considerations determine the actual fraction of a penny at which it pays to ship gold one way or the other. They are also subject to the qualification that, when sovereigns are held in Australia or Egypt in excess of the quantities immediately required for the finance of the trade of those countries, the Exchange Banks may find it economical to import this gold into India in preference to buying Councils, even though these can be obtained at a figure below gold point. When bills are not available at or below gold point to the extent required, gold must necessarily be remitted to India to pay for the exports from that country. On occasions when the proportion of gold in the Indian Treasuries and Currency offices is running low, the Secretary of State is able to, and very properly does, take advantage of this fact to force remittances of gold. Such gold will, on arrival in India, be tendered in exchange for rupees of which it will take the place in the Government Treasuries and Currency offices. Ordinarily, however, unless the Secretary of State has considered it necessary to restrict the offer of Council bills in this way, the surplus proceeds of his drawings, as compared with his actual revenue requirements, are applied partly to the strengthening of his cash balances, partly to the purchase of silver for coinage, partly to defraying capital outlay in connection with

railway construction. In cases in which the bills are drawn against the Currency Reserve, their proceeds are 'earmarked' in England as being portion of the Paper Currency Reserve, and can only be set free for purposes other than the purchase of silver for the Paper Currency Reserve (of which such silver will then automatically form an item) by the transfer in India of a similar amount in either sovereigns or rupees from Treasuries to that Reserve.

3. It will be convenient to consider the connection between the Secretary of State's bills and the balance of trade in a manner somewhat different to that which is usually adopted. It must be clearly understood that these bills represent two remittances in opposite directions :—

(*a*) A remittance to England by the Government of India.

(*b*) A corresponding remittance to India by the purchasers of the bills.

With (*a*) the Secretary of State has to meet all his home charges of whatever nature,—whether purchase of stores, payment of interest on his loans, payments to be made to the Home Government, payments on account of pensions, payments for purchase of silver or on whatever other account, including payments made on account of stock, etc., purchased on behalf of the Gold Reserve Fund. Remittances for this last purpose are, of course, remittances of capital. It is not material in the

present connection how the balances of receipts from the sale of bills over the amounts passed out are held either in Currency or otherwise.

These remittances by means of Council bills have in the past been supplemented by gold remittances made by the Government of India. But this does not affect the question at present under discussion.

The remittances to India by the purchasers of the bills may either :—

(*c*) be utilised towards payment in India for commodities exported from that country, or

(*d*) represent an import of capital into India on private account for commercial enterprises or investment, or

(*e*) though this is doubtless less important—represent remittances of income accrued in England for their personal expenses to persons residing in India, whether as temporary travellers or more permanently as, *e.g.*, in the case of officers in the Army having private means or in receipt of allowances.

With any balance of the exports not set off against the Secretary of State's bills in this way India has to meet :—

(*f*) The cost of imported goods. I may take this opportunity of explaining that India's payments for freight and insurance on imported goods will be included in their declared values, which, as is pointed out in the last chapter, represent their values on arrival in India. Conversely in

the case of exports freight will be excluded. Payment of this charge will be made to the carrier by the country taking the goods (when these are not carried in vessels under that country's flag). India should, however, be credited with that portion of the expenditure in connection with freight which is incurred in India. Subject to this qualification no adjustment on account of freight will be necessary in preparing a statement of India's balance of trade.

(*g*) Interest in England on capital invested in India, *vide* (*d*) above.

(*h*) Various miscellaneous charges for the use of English capital or credit, commission, premiums of insurance, etc.

(*i*) Remittances to England on private account, *e.g.*, on behalf of Indians residing in England, or by Europeans, etc., residing in India—whether for the purpose of investment out of India, or for the support of their families or otherwise.

I do not mean to imply that the various adjustments referred to above are independent of one another. They are of course absolutely interlaced. To bring the matter into the form of an account there will be on the two sides :

Payment to India for her exports (*c*).	Total amount of the Secretary of State's Bills (*b*).
	Payment by India for imports (*f*).
Private remittances to India as in (*d*) and (*e*).	Private remittances from India (*g*), (*h*) and (*i*).

Exports and imports of treasure on private account would of course be included in the above.

4. Some further explanations are required :—

(i) *Private remittances of securities from and to India :*—These do not stand in the same position as remittances of money. As pointed out by Sir D. Barbour (whose remarks in paras. 37—40 of his note of dissent on page 142 of the Report of the Gold and Silver Commission form a valuable statement of the whole question) :—" If somebody in India sells an Indian security to somebody in England, the transaction counts in the international trade for the time being as an export and therefore as a means of discharging an international liability." On the other hand, private remittances of securities to India must be regarded as " imports." These statements are subject to the further qualification that if an Englishman in India saves money and invests it in Governmen paper, and on return to England has his Government paper enfaced and brings it with him, the transaction does not affect the international account of the year either one way or the other.

(ii) *Investment of capital in India :*—A certain portion of the imports, such as tea garden machinery, really represents the investment in India of capital raised in England. As such imports are not paid for by India at the time, the transaction has no effect on the balance of trade of the year. As Sir D. Barbour further points

out, though all investments of foreign capita would tend to affect the exchange in subsequent years when profits on interest come to be remitted from India, this tendency is counteracted by the increase of Indian exports from the enterprise in which capital has been invested.

(iii) *Payments by and to India for her imports and exports respectively*:—As is explained in Chapter II, these figures are not exactly represented by the declared values of imports and exports. There are in fact limitations which make it impossible to ascertain the value of these payments exactly. Even assuming a reasonably close approximation, it must be remembered that a very small percentage of under-declaration or over-declaration may introduce a serious error into the total figures. Thus in 1909-10, with an understatement of one per cent. only for the value of imported merchandise and an over-statement of the same extent for that of exported merchandise, the error in the final result will be Rs. 3 crores or two million pounds sterling.

5. In striking a balance of trade we have therefore several disturbing factors, the extent of which cannot in many cases be even approximately estimated. Some of them are considerable and they vary from year to year, though it may happen that their net effect may not be large in particular years. This fact must be clearly understood when any comparison is drawn between the amount of

the Secretary of State's Council bills and the balance of the value of exports from India over that of imports into the country. Such a comparison, however, is not without interest as illustrating the extent to which a balance of trade in India's favour affects the demand for bills. I give below a statement showing the figures for the five years, 1905-06 and 1909-10 inclusive :

000's *omitted*.

Year.	Drawing of Council Bills by Secy. of State, including those on account of the Gold Standard Reserve, but deducting sterling Bills sold in India.			Excess of exports over imports excluding Government transactions.	
	£	Rate of Exchange.	Rs.	Rs.	£
		d.			
1905-06 ...	31,567	16·043	47,22,43	44,16.24	29,441
1906-07 ...	33,432	16·084	49,88,75	47,12,62	31,417
1907-08 ...	15,237	16·03	22,81,34	20,08,87	13,392
1908-09 ...	5,927	15·964	8,91,11	15,08,71	10,058
1909-10 ...	26,941	16·042	40,30.58	39,63,56	26,424
Total ...	...	...	1,69,14,21	1,66,10,00	...
Yearly Average...	...	...	33,82,84	33,22,00	...

In the case of 1909-10 the statement excludes a sum of £320,000 on account of telegraphic transfers issued against gold in transit from Egypt and Australia. The amount was paid in India in March 1910, but was included in the figures for April 1910 in the Home accounts. Also the rupee

figures do not, in any particular year, exactly correspond to those given on page 34, which represent the actual number of rupees paid out in India during the year. The figures here given show the number of rupees eventually disbursed against the bills sold during the year and include payments made after its close.

As is noted in the Indian Financial Statement for 1909-10, it is an interesting coincidence that during the five months (April to August) of the Government of India's fight against the fall in exchange in 1908, when sterling bills on London were sold for an amount of £8,058,000, the figures for Indian foreign sea-borne trade showed a net decline in exports of Rs. 12·07 crores as compared with the corresponding period in the preceding year. It must of course be remembered that the Secretary of State's drawings had come to a standstill. During 1910-11 Council drawings amounted to £26,783,000, or just over Rs. 40 crores. It is not yet possible to give complete trade figures for the year, but some remarks suggested by a comparison of these with the Secretary of State's remittances during the first 9 months will be found in Chapter I, para. 24. A special feature of the period was the abnormal divergency between the amount of Council bills and the excess of exports over imports.

CHAPTER IV.

INDIA'S PUBLIC DEBT AND THE SO-CALLED "DRAIN" ON INDIAN REVENUES.

For the reasons explained in Chapter III the amount drawn by the Secretary of State on India does not necessarily correspond in any particular year to the expenditure incurred in England chargeable to Indian revenues. In considering therefore the charges in England which India is called upon to pay, we must look to the actual expenditure in that country and not to the amount of Council bills sold. Adjustments, such as transfers between the Indian and the English branches of the Currency Reserve or Gold Standard Reserve, effected by means of such remittances, or the application of the amounts remitted to the strengthening of the Secretary of State's cash balances must for the present purpose be left out of account.

2. A statement of the expenditure incurred in England will be found in table 4 of the Finance and Revenue accounts of the Government of India.

The details for 1909-10 may be summarised as follows :—

		£ (000's omitted.)
Expenditure not charged against revenue—		
State Railways : Stores for India	2,080	
,, ,, Other charges	17	
Irrigation works	37	2,134
Expenditure charged against revenue—		
A. Interest and Sinking Funds : Railways	8,581	
Irrigation	109	
Other debt	2,102	10,792
B. Civil Charges—		
Civil Pensions, etc.	2,053	
Leave Allowances	398	
Salaries and expenses of Civil Depts. ...	305	
Stores for India	426	
Miscellaneous	207	3,389
C. Military services—		
Army—effective (*viz.*, payments to His Majesty's Exchequer, Furlough allowances, Troop services and passage money, etc. ...	1,726	
non-effective (*viz.*, Pensions, etc.) ...	2,463	
Marine—effective	111	
non-effective	23	
Stores for India	619	4,942
Total expenditure charged against revenue ...		19,123
Total expenditure		21,257

3. The above figures may be grouped in a still more concise form :—

	£ (000's omitted).
Interest on Debt, etc.	10,792
Capital expenditure and cost of stores for India	3,179
Civil leave allowances, and pensions, etc. ...	2,451
Military services excluding stores	4,323
Misc. civil charges	512
Total ...	21,257

Of the above items capital expenditure and cost of stores represent, almost entirely, actual payments in purchase of railway and other material. That such purchases are made in England is due to the fact that it is not as yet possible to purchase in India the articles required or else not possible to purchase them as economically. The extent to which a reduction in these Home purchases may in the future be possible depends upon India's own industrial development. This is in itself a large question which cannot be discussed in detail here, though a brief reference to it will be found in the next chapter. As an important example of Indian enterprise in this direction, I may cite the endeavour being made by Messrs. Tata to acclimatize the iron and steel industry in India by the erection of immense works at Kalimati in Bengal. The Government of India have granted various railway facilities to the company formed, and have also undertaken to purchase from them large quantities of rails. It may be also mentioned that the Government have in recent years established in India extensive cordite, gun carriage and small arms factories which both tend to cheapen the cost of military material and afford mechanical training and employment to natives of the country.

4. The payments on account of Civil and Military leave allowances and pensions require little explanation. These charges are a necessary concomitant of the British administration to which

India owes her material prosperity. Pensions and superannuation allowances are (as in fact they are regarded by the English Income Tax authorities) really deferred pay. It may be noted that the Military service charges include items of £916,000 representing payments to His Majesty's Exchequer on account of the cost of the training of British troops, etc., and £100,000, being a contribution towards the expenses of His Majesty's ships employed in the Indian seas. The apportionment of such expenditure between England and India is settled from time to time after a thorough discussion between the Indian and the Home Governments. The miscellaneous civil charges include the cost of the Secretary of State's establishment (£173,000), cost of management of the Public Debt, certain postal and telegraph subsidies, and various smaller charges.

5. There remains the item "Interest on Debt;" it must be explained that this includes considerable sums by way of annuities in purchase of railways, sinking funds, interest on capital deposited by companies, etc. The interest proper payable in England on debt during the year under examination was about £5½ millions. Moreover, in order to ascertain the actual position as regards the incidence of the interest charges on India's debt, the sums paid in India on this account must also be taken into consideration. The policy of the Government of India is to raise in that country, so

far as this is practicable, the money required for capital expenditure, supplementing the amount so raised by sterling loans in England. In practice, however, the demand for capital in India is greater than the supply. The table below gives (in millions of £ sterling) the figures for different periods:—

On 31st March.	Held in sterling.	Held in rupees (converted into sterling at Rs. 15=£ 1.)	Total.	Interest payable.
1888	84·1	65·4	149·5	6·2
1853	106·7	68·6	175·3	6·7
1898	123·3	74·4	197·7	6·7
1903	133·8	78·2	212·0	7·1
1908	156·5	88·5	245·0	8·0
1909	161·0	89·7	250·7	8·5
1910	170·1	91·2	261·3	8·8

This table, which with those immediately following is reproduced from the Financial Statement of the Government of India for 1909-10 (with the addition of the figures for the last two years), leaves out of consideration unfunded India bills for £6,000,000 and the obligations of Government on account of savings banks and other repayable deposits. These amounted on 31st March 1909 to Rs. 32·6 crores, consisting of savings banks deposits, etc., Rs. 19 crores, departmental and judicial deposits, Rs. 7 crores, special loans, Rs. 1·7 crores, service funds, Rs. 1·8 crores, and miscellaneous obligations, Rs. 2·8 crores. Against these obliga-

tions may be set the debts due to Government amounting to Rs. 20 crores, mainly on account of advances to local bodies, Rs. 10 crores, agriculturists, Rs. 6 crores, and Native States, Rs. 3 crores.

The above figures exclude the obligations of Government in respect to the Railway annuities referred to above. As regards these some further explanation is required. The first railways in India, including some of the more important systems, were constructed through the agency of joint stock companies under contracts with the State. These contracts gave the railways a guarantee of 5 per cent. on the capital outlay with half the surplus profits in addition, while the State retained the option of purchase after a certain term. When the period expired certain railways were purchased under an arrangement by which the bulk of the price was paid by annuities, a portion of the balance being discharged by the creation of India Stock, an arrangement being made gradually to cancel India Stock of a corresponding amount by annual sinking fund purchases. In two cases new company stock was issued in exchange for a portion of the annuity. The whole of the annuity and sinking fund payments are a direct charge against railway revenues, amounting in 1909-10 to £3,358,000 and £165,000 respectively. The present value of the outstanding annuities was approximately £73 millions on the 31st March 1911

6. The existence of the sterling interest charges is due to the fact that India has had, like many of the Colonies, to have recourse to British capital for the proper development of her resources. The transaction is entirely a commercial one for India's benefit and the payments are made for value received. A further reference to this matter will be found in the following chapter. Moreover, the increase in the total volume of the debt which the above figures show does not mean that any increased burden has been placed on the Indian taxpayer. The effect has been exactly the opposite, the reason lying in the growing proportion to the total debt of that part which represents profitable investment in railways and irrigation works. The following table discriminates between the productive and the ordinary or non-productive debt :—

In millions of £ Sterling.

On 31st March.	Ordinary debt.	Public Works Dept.			Grand total of debt.
		Railways.	Irrigation.	Total.	
1888 ...	73·0	59·2	17·3	76·5	149·5
1893 ...	65·0	91·0	19·3	110·3	175·3
1898 ...	70·0	106·0	21·7	127·7	197·7
1903 ...	59·1	128·1	24·8	152·9	212·0
1908 ...	37·4	177·7	29·9	207·6	245·0
1909 ...	37·7	182·2	30·8	213·0	250·7
1910 ...	42·5*	186·5	32·3	218·8	261·3

* The increase in the amount of the ordinary debt during 1909-10 is temporary only, and is due to the fact that in January 1910 the Secretary

7. The decline of the ordinary debt has been effected mainly by transferring to the public works portion of the debt an amount equal to the capital expenditure on public works supplied from revenue. The expenditure on capital outlay from revenue, either from the annual Famine Insurance Grant (as regards which *vide* para. 11 below) or from general savings has been considerable; and it is right to include it in the debt account, since its annual profits are a proper set off against interest charges.

At the same time no similar adjustments are made in the case of the annuity and sinking fund transactions. While the cancelment of debt effected by the sinking fund purchases is regarded as a reduction of "ordinary" debt, no transfer from ordinary to reproductive debt is made in respect of the capital cost of railways discharged by the annuity payments. This amounted in 1909-10 to £760,000, the total amount of capital discharged by such payments up to March 1911 being about £8,700,000. The position is thus even more favourable than the statements show, as (*a*) a sum of £11·7 millions expended in this way

of State took advantage of a favourable condition of the market to raise a large sterling loan of £7,500,000 in advance of his immediate requirements. Partly as a result of this transaction the cash balances of the Home Treasury of the Government of India stood at £15·8 millions at the close of the year against £8·4 millions at its commencement. Adjustments in the classification of debt are made when the amount of the loan is actually devoted to capital railway and irrigation expenditure.

from revenues on account of the cost of railways has not been transferred from the ordinary to the railway debt; and (*b*) an annual sum of about £950,000 is at the present time deducted from the railway earnings on account of the sinking fund payments and of the 'capital' portion of the annuities in estimating the net receipts derived from the railways. This adjustment has been made in column 4 of the following statement which shows the net effect of the borrowing operations of the Government of India :—

In millions of £ Sterling.

Year.	Interest on Ordy. debt.	Interest on Ry. debt.	Net receipts from Rys. (*i.e.*, gross receipts less working expenses and other charges).	Interest on Irrigation debt.	Net receipts from Major irrigation works.	Total interest on public works debt (Cols. 3 & 5).	Total net receipts from Rys. and Major irrigation works (Cols. 4 & 6).	Actual net interest on public works debt (Col. 7 less Col. 8).	Total net interest charges (Cols. 2 and 9).
1	2	3	4	5	6	7	8	9	10
1887-88	3·2	2·2	0·8	0·7	0·6	2·9	1·4	1·5	4·8
1892-93	2·7	3·4	1·9	0·8	0·9	4·2	2·8	1·4	4·1
1897-98	2·0	3·9	3·0	0·8	1·6	4·7	4·6	0·1	2·1
1902-03	1·4	4·7	4·9	1·0	1·7	5·7	6·6	—0·9	0·5
1907-08	1·3	5·8	7·3	1·0	1·2	6·8	8·5	—1·7	—0·4
1908-09	1·4	6·0	4·8	1·0	1·2	7·0	6·0	1·0	2.6
1909-10	1·6	6·1	7·0	1·1	1·2	7·2	8·2	—1·0	0·4
1910-11 Revised estimate.	1·6	6·2	8·1	1·1	1·2	7·3	9·3	—2·0	—0·4

The minus sign indicates that there was a net profit to Government *after* payment of the interest charges.

8. It will be seen that, though in the earlier years the net ordinary receipts from Railways and

Major irrigation works failed to meet the interest charges, they showed in 1907-08 an aggregate net surplus of £1·7 millions, and actually left a surplus of £400,000 after payment of interest on the whole debt. There was a temporary set back in the following year, when for the first time since 1898-99 the Indian Railway system was worked at a net loss to the State. This was largely attributable to exceptional expenditure during the year on renewals and repairs carried out from revenue. As stated in the Financial Statement for the year, "Present day working requires more frequent train services, with heavier loads and more powerful engines than sufficed to meet the traffic requirements of even ten years ago, when the earnings of our Railways were little more than half what they are now. This involves the renewals of rails and guides that have proved too light for the loads they have to carry ; and in other respects the rapid development of Indian commerce and industry is casting increased liabilities upon our railway administrations. We have a right to hope that, when these renewals have been carried to completion, they will outlast a further considerable growth of traffic for years to come, and that the fruits of the present activity will be reaped in the future in a lower percentage of working expenses."

9. I reproduce on the following page an interesting table from the same Financial Statement

comparing the debt of India with the national debt of other important countries. The figures given are for the year 1905 or 1905-06, except in the case of Japan for which the year 1906-07 is taken :—

	Public Debt.	Population.	Debt per head of population.	Annual Revenue.	Col. 1 divided by Col. 4.
	1.	2.	3.	4.	5.
	£ (Millions.)	Millions.	£ s. d.	£ (Millions.)	Years.
1. Australian Commonwealth ...	236·7	4·1	58 7 11	30·6	7·7
2. Portugal ..	179·0	5·4	33 0 2	13·8	13·0
3. France ...	1,228·1	39·2	31 5 9	147·5	8·3
4. Spain ...	379·1	18·6	20 7 3	40·9	9·3
5. United Kingdom ...	789·0	43·7	18 1 5	143·7	5·5
6. Belgium ...	128·8	7·2	17 19 10	26·1	4·9
7. Netherlands	95·0	5·6	16 19 7	14·4	6·6
8. Italy ...	499·0	33·7	14 15 10	87·2	5·7
9. Canada ...	77·7	5·4	14 9 4	15·6	5·0
10. Austria Hungary .	618·8	45·4	13 12 7	149·9	4·1
11. Germany ...	815·4	60·6	13 8 11	338·2	2·4
12. Russia ...	884·6	129·2	6 16 11	268·8	3·3
13 Turkey ...	113·6	24·0	4 14 6	17·5	6·5
14. United States ...	249·6	83·9	2 19 6	194·8	1·3
15. Japan ...	227·2	48·9	4 13 0	53·8	4·3
16. India ...	245·0	230·2	1 1 3	73·4	3·1

10. Apart from the purely financial aspect of the case, and the fact that the loan transactions of the Government of India are in the main directly productive and thus impose little or no burden on

the State, the material economical development which has been effected by their proceeds must also be borne in mind. The following figures show briefly the extent of the Indian railways and the great expansion in recent years in the work done by them :—

Railways.	1900.	1909.
Mileage open to traffic	24,752	31,490
Number (in thousands) of passengers conveyed	176,308	329,380
Quantity of goods and materials conveyed in thousands of tons ...	42,896	60,902

On the 31st March 1910 the total length of open lines was 31,614 miles, this length being increased by approximately 924 miles in the following year. As regards irrigation, 55,274 miles of main and branch canals and distributaries had been constructed up to the 31st March 1910, commanding nearly 47 million acres of culturable land, of which 22 million acres were irrigated during 1909-10. The protection against famine which both railways and irrigation work afford is in itself an asset of immense value to Government ; they also necessarily tend to raise the general prosperity of the tracts which they serve and thereby to increase other branches of the Government revenue. Thus the calculations given above take no account of the land revenue due to irrigation which amounted in each of the later years taken to over one million sterling.

11. The Famine Insurance Grant, to which I have referred above, consists of a provision of Rs. 1½ crores, or one million sterling, in the budget. In years of scarcity the actual relief of famine is always a first charge on the grant. In other years half of the grant is devoted to "protective" works, these consisting of railways and irrigation works, whose construction could not justifiably be undertaken from loan funds, as not being of a directly remunerative nature, but is at the same time desirable as affording a protection from famine.* The balance of the grant (apart from actual famine expenditure) is devoted to the avoidance of debt which would otherwise have been incurred on the construction of railways. In other words, the fund provides, in ordinary years, for the setting aside of a certain portion of the revenues for capital expenditure. This, like the deliberate charge to revenue of the capital expenditure paid for by means of the railway annuities and sinking funds, is comparable to the business practice of making provision out of income for sinking funds or reserves. The sums so provided from revenue are supplemented from the Government cash balances which include the revenue surpluses realised in good years, and it is

* It may be mentioned that in the Budget for 1911-12 the Government of India provided a sum of £120,000 or Rs. 18 lakhs for protective irrigation works, over and above the amount allotted as usual from the Famine Insurance Grant.

this fact which has made it possible to transfer debt, from time to time, from the non-productive to the productive category. In Egypt the practice has been adopted of deliberately budgeting for a considerable revenue surplus in order to provide funds for capital expenditure. The position is not the same in India, where it is the expressed intention of Government to forecast the actual figures for revenue and expenditure as closely as possible. The very large fluctuations from year to year in the receipts from opium necessarily cause this head of revenue to be a factor of great uncertainty in the estimates. And, moreover, as has been pointed out by the present Finance Member, the monsoon will always be a factor in which hope must of necessity take the place of calculation, and that in itself renders budgeting in India a matter of abnormal difficulty.

CHAPTER V.

THE INVESTMENT OF BRITISH CAPITAL IN INDIA.

The investment of British Capital outside the United Kingdom and the economic advantages or the reverse of such investment have in recent years attracted much attention. The subject is discussed at length in two interesting papers read by Mr. George Paish before the Royal Statistical Society in 1909 and in 1910 respectively. I bring together here the actual evidence available to show the extent of such investment in India.

2. The most important items are the amounts invested in the Government of India loans, which largely represent productive expenditure on railways and irrigation works. The share contributed by the English investor may be stated approximately as follows :—

	£ Millions.
India Sterling stock	170
Enfaced rupee paper held in London ...	9
Approximate quantity of rupee paper held in India by Europeans (about Rs. 57 crores, less Rs. 10 crores held by Government in the Paper Currency Reserve)	31
Total ...	£210 millions.

These figures exclude a sum of £3½ millions raised at the close of 1910-11, and India bills to the value of £5 millions outstanding at the close of that year. I think, however, that the present value, approximately £73 millions, of the railway annuities referred to in the last chapter, may also properly be taken into account.

Of a somewhat similar nature are the loans floated in the open market by local bodies in India. The table below shows, for the more important of these, their indebtedness (in crores of rupees) to the public on the 31st March 1910—

Bombay Municipality ...	... 5·26
„ Port Trust ...	... 6·74
„ Improvement Trust ...	... 4·00
Calcutta Municipality ...	... 4·76
„ Port Trust ...	... 7·99
Madras Municipality ...	... ·53
Rangoon Municipality ...	... 1·49
„ Port Trust ...	... 3·14
Karachi Municipality ...	... ·15
„ Port Trust ...	... 1·86
Total	... 35·92

Of this total £3,000,000 was actually raised in England in sterling, and, allowing for the fact that a large portion of these loans is held by natives of India, the amount in English hands may be taken at £10 millions.

3. The stock of public companies constitutes another large item. These companies may be

divided for the present purpose into three classes :—

A. Companies registered in India. These had at the end of 1908-09 a paid-up capital of Rs. 57 crores, plus debentures of Rs. 8·5 crores, or in all Rs. 65·5 crores, or nearly £44 millions. Nearly half the aggregate capital is invested in mills or presses, chiefly for working or pressing cotton, jute, wool and silk. Here again a great deal of the capital is held by natives of India, and this is probably especially the case in Bombay. As an approximation British capital may be taken at £20 millions sterling. The above figures are exclusive of the capital (Rs. 3,60 lakhs) of the Presidency Banks.

B. Companies with a sterling capital carrying on business more or less exclusively in India. The paid-up capital of these amounted in 1908 to £69 millions and the debentures to £42 millions or £111 in all. Of this sum the railways account for about £77 millions (including £38 millions of the debentures) and the tea industry for £13½ millions. The total of £111 millions may be taken to have been found by the British investor.

C. Companies registered elsewhere than in India, but whose business is not mainly confined to India, though they have some business in that country. Here no complete figures are available, though these interests may in some cases be very

important. Thus the Exchange Banks had in 1907 a capital of £17 millions (exclusive of reserves, which have already been partially taken into account under investment in securities ; and of the Hong-Kong and Shanghai Bank whose figures have been included under *A* above).

4. Bringing together the above items we have :—

	In millions sterling.
Government loans	210
Railway annuities	73
Loans of local bodies	10
Companies registered in India ...	20
Companies with a sterling capital ...	111
Total ...	£424 millions.

The figures leave out of account the English banking, loan and insurance capital employed in India, the value of the Indian interest (specially in the Presidency towns, Rangoon and Karachi) of the large British shipping firms, and of other Companies (such as the Oil combines) not having an Indian domicile. and also of various private persons and firms. The amount of capital employed in this way must necessarily be largely a matter of conjecture, but a total of at least £450 millions sterling may, I think, safely be taken.

The above approximations are based on the face value of the various investments, and ignore any appreciation or depreciation that may have taken place. Thus the market value of the shares of

45 representative tea companies in January 1911 was about £16½ millions, against a face value of of £9½ millions. It does not, however, appear to be necessary to pursue this point, as the estimate is necessarily a rough one, and it is probable that such fluctuations largely counterbalance one another and that their net effect is not very large. It is also in any case somewhat arguable how far allowance should be made for them.

5. Mr. Paish who has approached the question in a somewhat different way has obtained a smaller total. His figures for India and Ceylon taken together are £365,399,000, the details being as follows :—

	£(000's omitted).
Government	178,995
Municipal	3,522
Railways	136,519
Banks	3,400
Commercial and Industrial, etc.	2,647
Electric lighting and power	1,763
Financial, land and investment	1,853
Gas and water	659
Iron, coal and steel	803
Mines	3,531
Motor traction and manufacturing	90
Oil	3,184
Rubber	4,610
Tea and coffee	19,644
Telegraphs and telephones	43
Tramways	4,136
Total	365,399

Mr. Paish remarks regarding these figures : "No one can doubt the beneficent effect upon the prosperity of India of this expenditure of British capital for the development of the natural resources of the country, and the linking up of district with district, which has so powerfully helped to diminish the severity of famines. This great sum has been lent to India at an exceptionally low rate of interest, and having regard to the immense increase in the wealth of the Indian people which has resulted, and is resulting, from the construction of railways, the burden of the low interest charge is quite negligible."

6. The total figure at which Mr. Paish arrives for British investments in British possessions outside the United Kingdom is £1,554 millions, the most important borrowers among the Colonies being Australasia (380 millions), Canada and Newfoundland (373 millions) and South Africa (351 millions). For foreign countries his estimate is £1,638 millions of which 688 millions are taken by the United States and 270 millions by Argentina followed by Brazil, Mexico and Japan with 94, 87 and 54 millions respectively. As he explains, his grand total of 3,192 millions of capital which Great Britain has supplied to the nations is not the total sum her people are employing in other lands. It takes no account of the great sum of private capital employed abroad by the British people in a variety of ways, such as the purchase of land, loans on

mortgage, deposits in banks, branch manufacturing mercantile and trade undertakings, etc. Mr. Paish estimates that, if allowance be made, on the one hand, for the foreign capital employed in British companies both at home and abroad and in British loans, and, on the other hand, for the vast amount of private capital which the British people have placed abroad, the net total of their investments in other lands would be not much short of 3,500 millions sterling. The sum invested in India thus amounts to more than one-tenth of this total.

7. Attention has been repeatedly drawn to the reluctance of natives of India to invest capital in the development of industrial enterprises. I cannot do better than quote the remarks made by Mr. R. N. Mukerjee, C.I.E., an eminent Indian business man, on the subject, in the course of his Presidential address at the Indian Industrial Conference in 1910:—"Indian capital is proverbially shy and unenterprising, but this I ascribe largely to a want of industrial and commercial knowledge on the part of Indian capitalists, and consequent failure to realise the potentialities of the various schemes placed before them, coupled with a disinclination to depart from those time-honoured methods of investing and lending money, which have been in force for so many centuries and, in many instances, bring in a return which can only be considered as usury. India, generally speaking,

is a poor country, that is to say, the majority of the population are poor. But there is wealth in India, and the possessors of it could, with but a fractional part of their amassed wealth, not only develop many of the industries that are dormant to-day, but make India industrially equal to any other country in the world.....We often see articles in Indian newspapers, or hear speeches from public platforms, condemning the use of foreign (English) capital for the development of Indian industries. But, I am afraid, those who hold such views do not seriously consider the question in all its aspects. Apart from the fact that foreign capital is only attracted by signs of peace and prosperity, and that we know that foreign capital is welcome in any other country for the development of her industries, an important consideration for us in India arises from the fact that, for our own good, it is wise to allow British capitalists to interest themselves in our industries, and thus take an active part in their development. That industrial enterprise can be successful in India is amply proved by the many large and thriving industries, representing millions of capital which already exist, and it is a reproach to us, as a people, that practically the whole of these, with the exception of a certain number on the Bombay side, have been financed and developed by English capital and energy. It is true that when these industries were first started, our countrymen

had little interest in, or knowledge of such enterprises, but that attitude is rapidly changing, and it should be our aim and endeavour to emulate the example set us by our English fellow-subjects and to join with them in the industrial development of India."

CHAPTER VI.

THE RISE IN PRICES IN INDIA IN RECENT YEARS.

THE rise in the prices of food stuffs in India has attracted attention for some years past. It formed the subject of an interesting paper by Mr. F. J. Atkinson, "Rupee prices in India, 1870 to 1908," in the Journal of the Royal Statistical Society in September 1909, and the Government have recently deputed some selected officers to enquire into the question. The actual terms of reference are—

(1) What has been the actual rise in prices in India during the past fifteen years? Has the rise affected all commodities alike or is it specially marked in the case of food-grains? Are there marked differences in respect of enhancement of prices as between different areas?

(2) To what extent is the rise in prices due to what may be styled "World factors," and how far may it be ascribed to local conditions?

(3) Does it appear that the rise is a permanent feature or is it temporary only?

(4) If it be more or less permanent, what are its probable economic effects on the country as a whole and on the different sections of the community?

I do not propose here to anticipate the results of the detailed investigation instituted by Government, but merely to utilise such information as is already available for the purpose of explaining my views, with particular reference to the extent to which the level of India prices has been affected by the currency policy of the Government of India. I have taken the opportunity of referring to some of Mr. Atkinson's figures, though, as will be seen by those who have had the advantage of reading his paper, I am not able to accept all of his conclusions.

2. Index numbers are now generally utilised as the basis for enquiries of this nature. The series of such numbers for Indian prices which is best known in the United Kingdom is probably that prepared by Mr. Atkinson ; this was brought down to 1908 in his paper referred to above. Series of index numbers had however previously issued under the auspices of the Government of India in the annual reviews of trade ; and in 1905 the Commerce and Industry Department issued a separate publication of such numbers based on the system of record of prices maintained in that country. These numbers, which have since been brought down to 1909, are prepared on different lines to those of Mr. Atkinson. The most important difference is that his system of weighting the price ratios has been rejected. In practice it has been found that this method does not materially

affect the resultant index numbers and the conclusions which can be drawn from them; and it was considered that the best practical method is to adopt the unweighted average of the price ratios, as these are sufficiently numerous to minimise the effect of chance error. The statement appended, which I have taken from the Government publication referred to, contains special index numbers for 11 imported articles and 28 articles exported and consumed, together with their resultant general index numbers. The special index number for food-grain prices is compiled from the retail prices for rice, wheat, jawar, bajra, gram, barley and ragi at certain selected stations. The base year selected is 1873, the year in which Germany demonetized silver and started the great change in the relative values of gold and silver. For convenience of reference Mr. Atkinson's and Mr. Sauerbeck's numbers equated to this year are also shown in the table.

3. Whatever numbers are taken, there can be little dispute as to the actual facts. In the past the salient feature of all price statements has been the same, *viz.*, the immense fluctuation of prices between years of good and bad harvests which resulted from the absence of trade and communication. I have examined a large number of settlement reports in this connection. The figures are informing, but, owing to differences in the periods reviewed in different reports and the

Year.	Index numbers of the Commercial Intelligence Department.				Atkinson — Silver prices.	Sauerbeck — Gold prices.
	Food-grain (retail price.)	Imported articles.	Articles exported and consumed.	All articles.		
1873	100	100	100	100	100	100
1874	100	99	102	101	108	92
1875	91	90	95	94	97	86
1876	97	91	90	90	100	86
1877	144	88	110	104	129	85
1878	174	84	114	106	139	78
1879	160	83	112	104	127	75
1880	118	88	110	104	109	79
1881	96	86	99	96	99	77
1882	95	85	95	92	98	76
1883	95	79	93	89	99	74
1884	99	78	96	91	107	68
1885	100	75	91	87	106	65
1886	105	80	93	89	103	62
1887	117	83	94	91	104	61
1888	123	92	98	96	111	63
1889	119	91	104	101	118	65
1890	121	91	104	100	118	65
1891	137	84	103	98	120	65
1892	148	84	109	102	132	61
1893	129	89	112	105	129	61
1894	114	84	110	102	123	57
1895	120	87	111	104	120	56
1896	155	94	117	110	131	55
1897	209	86	124	113	154	56
1898	139	80	102	96	126	58
1899	137	87	100	96	121	61
1900	192	97	124	116	143	68
1901	157	96	116	110	139	63
1902	141	86	113	105	128	62
1903	126	88	103	99	123	62
1904	117	93	104	101	121	63
1905	147	96	116	111	134	65
1906	179	105	139	129	158	69
1907	180	116	145	137	167	72
1908	231	107	151	139	180	66
1909	195	99	134	124	...	67
1910	...	...	...	...	...	70

absence of any uniformity of system in the preparation of such statements, it is not possible to tabulate the results in any concise form. The reports in some cases disclose variations between the prices ascertained from money lenders' accounts and local enquiries and those published by Government which represent the prices realised at head-quarters. The result of the improvement of communications is that local prices as ascertained above tend to approximate to those current at head-quarters, and that a more uniform level is maintained between districts and provinces. Statements to this effect may be found in official reports for various parts of India. Thus it is noted in a memorandum on the material condition of the people in the United Provinces that "almost every district in the provinces is now in such close relations with the great wholesale markets that no lasting depression of prices below the ordinary level is possible in any locality. The effect is not confined to the provinces, as the whole of India may now almost be described as one market." In a similar report for Madras it is stated that "what is noticeable in the history of prices in recent years is the general levelling of rates over the whole area, whilst local prices are now-a-days greatly affected by rates in other far distant parts of India." Local prices as distinguished from Gazette prices thus possess less significance than they did in the past, and this significance will

diminish still further in future. In this connection, the remarks of the Famine Commission of 1898 may be quoted :—"It is clear that the very marked tendency to equalization of prices throughout India is due to the great extension of railways and to the opening up of large tracts of country formerly provided with inadequate means of communication. On almost all railways in India the sanctioned rates vary from one-third to one-tenth of a pie per maund per mile.....In 1880, according to the Famine Commissioners, the charge for transport between the most distant parts of India was about one anna per seer, and grain could be bought costing 24 seers per rupee in Northern India and sold with fair profit in Southern India at 8 seers the rupee. At the present time, grain could be carried 1,000 miles for little over 10 annas per maund of 40 seers, and wheat selling in the Punjab at 12 seers the rupee could, if on the line of rail, be placed 1,000 miles off and sold at 10 seers the rupee."

4. In spite, however, of the general levelling up and steadying effect (both as between different places and as between different years) that would necessarily result from the great improvement in communications that has taken place, we find that this tendency has been accompanied by rapid and extraordinary rises in the price of food-grain prices in particular years. This is usually readily traceable to more or less serious failures of the crops.

The more important have been the great Orissa famine of 1866, severe famine in Rajputana and parts of Northern India in 1869, the great famine of 1877-78 in Southern and Western India, widespread scarcity and distress in 1891-92, almost universal famine in 1896-97, severe famine in Central and Western India in 1899-1900, famine in Central, Northern and Western India in 1904-05, and again scarcity in Northern India in 1907, the United Provinces in particular suffering severely.

5. It is thus clear that certain of the phenomena can be directly explained by conditions within India herself. The various factors which operate within that country will be examined in greater detail below. But it will I think clear the ground if the possible and probable effect of the causes external to India be first looked to.

CHAPTER VII.

GENERAL PRICE MOVEMENTS AND THEIR RELATION TO THE SUPPLY OF GOLD.

It must be noted at the outset that India is not the only country which has been experiencing higher prices in recent years. The phenomenon has occurred all over the world, *e.g.*, the United Kingdom, France, Germany, Austria, the United States, and Japan, and much has been written as to its causes. Many writers have attributed the world-wide rise in prices largely to the enormous increase in the world's output of gold in recent years. The annual output approximately doubled in the decade 1886 to 1896, rising from about £22 millions to about £42 millions, while by 1906, in spite of a temporary set back during the South African War, it had again doubled, reaching £84 millions. The outturn for 1910 is estimated at no less than £93·6 millions.

2. The relation between gold production and prices is admittedly exceedingly complex. Thus in the former of the above two decades prices of commodities fell and credit was abundant. Sauerbeck's index number dropped from 69 in 1886 to 61 in 1896, this being the lowest yearly figure ever

recorded in his series. In the latter period there was a growing clamour for gold and credit, which eventually culminated in the great American credit crisis of 1907. In 1906 Sauerbeck's number stood at 77 ; it was 80 in 1907, touching 82·4 in May of that year, and after falling to 73 and 74 in the two following years rose again to 78 in 1910. It is now generally agreed that the quantity of gold produced is *one* of the factors which influence prices. Mons. L. deLauney writes in "The World's Gold" (English translation, pages 196-197) :—"Like every other commodity gold rises in price when the demand exceeds the supply. When gold perceptibly increases or decreases in value, its purchasing power grows or diminishes. While the great accumulated stocks perform the work of governors and diminish the effect of sudden oscillatory motions, they cannot prevent continuous motions from making themselves felt in the long run. When too little gold is produced for the universal needs, it is inevitable that the price of gold should rise everywhere. When there is an over-production of gold on the other hand its price cannot help falling."

3. The term "depreciation of gold" is frequently used in a somewhat loose sense to indicate that it possesses a diminished purchasing power in respect of other commodities, without reference to the fact that a rise in prices of other commodities as expressed in gold may be explainable on other

hypothesis than an actual depreciation of gold. Some writers, I am aware, deny that there can be any such actual depreciation, though their views seem to be based on the fallacy that because the value of gold as measured in gold is unchangeable, the exchange value of gold as regards other articles can never alter. I have quoted from M. deLauney on this point, as this author goes on to enunciate his own views that the great recent increases in the production of gold have *not* been in excess of the world's demands, and that they have not therefore had a corresponding effect on prices.

4. Stress must, however, be laid on the fact that while the production of gold is one of the factors which influence prices, it is, in the words of another writer, "only one of many factors, several of which are powerful enough either singly or in combination to neutralise changes in the quantity of money." Thus, to turn to the two periods mentioned above, the fall in the earlier period may be explained by the extensive opening up of new territories and the improved means of transport which brought their agricultural products to the world's market more cheaply and rapidly. This cheapening lessened the demand for credit, one of the most important functions of which is the financing of trade. Such financing is necessarily accomplished more easily and cheaply when trade products are at a low price. In the second

period the demand for products, owing to the growth of population and destructive wars, to some extent overtook the increased supply, again raising prices and reviving the demand for credit. The subsequent swing of the pendulum is possibly to some extent attributable to the great credit crisis in New York, when the consequent scramble for gold would naturally tend, at any rate temporarily, to appreciate its value relative to other commodities and to cause the general level of prices to fall.

5. Much has been written about the manner in which increased and decreased supplies of gold operate in effecting prices. It may be noted that inherent depreciation of gold might theoretically occur not only by over-production, but also by a reduction in the cost of production. Such reduction in cost has in fact resulted from the improved processes of recent years which have made it possible to work with profit low-grade ores in a way formerly impossible.

6. Apart from this it is generally held that, *cæteris paribus*, an increased output of gold tends to stimulate trade by enabling banks to increase their reserves and to give their customers increased credit. The relation, however, between cheap money and high prices is less simple. *Primâ facie*, where the circulating medium (in whatever form, *viz.*, whether as currency or credit) is plentiful, its ratio to the amount of commodities will be

high and prices will tend to rule high. On the other hand, it may be said that high prices stimulate trade, as everyone desires to take advantage of an upward movement, thereby increasing the demand for credit and conducing to dear money. Conversely, a cheaper production of goods tending to lower prices will lessen the demand for credit thereby conducing to cheap money. Sir R. Giffen says the same thing in another way (Gold supply, the rate of discount and prices):—"A change in the level of prices affects the money market; a rise tends to make 'money' in demand and to raise discount rates; a fall to make 'money' abundant and to lower rates. At the same time a change in the discount rates acts on prices. A rise tends to lower prices; a fall to raise them. Prices in turn act as discount rates. There is incessant action and reaction."

7. These remarks require qualification. To quote the words of an American writer: "Call rates, it is to be observed, vary with the demand and supply of ready money, and accordingly may be high either because the supply is small or the demand is large, or may be low either because the supply is large or the demand is small. A large demand for call money, however, sometimes is a sign of low confidence and represents liquidations, and sometimes is a sign of high confidence and represents good opportunities for new investments. A small supply of call money, on the other hand,

sometimes is a sign of low confidence and represents a demand for increased bank reserves, or a scarcity of money for current business; or it may be a sign of high business confidence and good opportunities for investments either in the call market itself or in the time market."

8. Sir R. Giffen indeed went so far as to connect variations in prices directly with the amount of the supply of gold. He indicates the circumstances in which "it is possible that the abundance or scarcity of gold may be felt on prices in a large degree without being affected in the discount market." He goes on to say: "wages and profits are directly related to the quantity of gold in use. On these wages and profits depend prices."

9. These statements do not, as they stand, allow for the limitations which must in any case be taken into account before the quantitative theory can be accepted. There can be no doubt that the extended use of credit in modern times affects and acts upon prices in much the same way as an equal quantity of gold would do. Briefly the position may be stated as follows:—

(1) All credit ultimately rests on a metallic basis though the limit is an elastic one. The idea was developed at length by Mr. Bagehot in his "Lombard Street." His object was to draw attention to the alleged inadequacy of the bank reserves in England, a matter which has recently attracted much attention. It is unnecessary to go into it

here, though it is obvious that any considerable increase in the reserves, however theoretically desirable, would not in the absence of a corresponding increase in the superstructure of credit operate to economise the use of gold. As Lord Rothschild remarked in an interview a few years ago: "the narrow margins with which we (*sc.* English bankers) work are the reason why we get the business." At the same time an increase in the supply of gold will probably, as already observed, tend to stimulate trade by enabling banks to increase their reserves and give their customers enlarged accommodation.

(2) Though however, generally speaking, the quantity of gold produced is indeed one of many causes which may affect credit, and though it seems probable that any considerable increase in the supply of gold must tend to increase the superstructure of credit, the growth of credit has no direct dependence on the supply of gold and is likely to become more rapid as the supply of gold becomes less. Similarly, the quantity of gold added to the reserves has no direct proportion to the business of which it is the basis and the ultimate security; it is simply an addition of so many pounds sterling to the whole mass of money in existence, whether metallic money or credit money, and is consequently comparatively insignificant as a factor in prices. It must also be borne in mind that some limit will always be imposed on the rise in prices on account of expansion of

credit by the fact that there will always be a certain number of payments, such as wages and the less important retail transactions that have to be made in cash.

(3) It is highly probable that, apart from any influence that may have been exercised on prices by the world's rapidly increasing output of gold, we must also look to the supply of, and the demand for, goods as being important features in recent economic changes. These factors no less than the supply of gold, or even of 'money,' govern both the rate of discount and prices. This conclusion has been put in another way by the suggestion that prices are determined (*a*) by the efficiency of production ; and (*b*) by the purchasing power of the community. This last factor is of course to some extent connected with the supply of money.

CHAPTER VIII.

CAUSES OF THE RISE IN INDIAN PRICES.

Causes external to India.

As is pointed out by Mr. Bastable (Theory of International Trade) 'the divergence of prices in different countries is limited, since imported articles cannot be permanently higher in price than in the country of their production by more than the cost of the sum of impediments to exchange' (*i.e.*, cost of transport, etc.). It is, in fact, obvious that, with the improved communications of modern times, adjustments between prices in different countries having commercial relations (whether direct or otherwise) must tend to take place, in the same way as this has happened in India (*a*) within particular districts, (*b*) as between different districts, and (*c*) as between different provinces. Thus a general rise in the prices of food-grains in India, to whatever cause this may be due, will necessarily extend to the articles of produce required by Western markets, operating, as it must do, on various items in the cost of production, such as capital, profits, wages, raw material, etc. This increase of price, unless accompanied by a similar rise in the consuming countries, will lead them to curtail their demand for the commodities previously taken by them

from India. The result of a decline in the competition for these commodities will be, that their price in India will tend to fall, thereby affecting wages, profits, etc., and acting again on the range of prices of other commodities in India till temporary equilibrium is re-established. Conversely, a general rise of prices in the consuming countries, by affecting the prices of commodities which India supplies, must tend to stimulate production in India of those commodities and their export to the country where their prices have risen until prices in India rise also. Speaking generally, the effects of a fall of prices in any country with important external commercial relations will not be confined to itself. This principle seems to be merely a statement of the law of supply and demand. The effect which a variation of prices in country "A" will have on other countries outside it must of course depend on the extent of A's contribution to, and receipts from, the world's trade. If these transactions are relatively large, the variation within the country will be more likely to have some effect on prices elsewhere; if they are relatively small, the external effect will be smaller, and may either be inappreciable or be limited to a fluctuation in the price of a few commodities in other countries. In the latter case prices in country A will tend to revert to their old level, the process being accelerated by the fact that the higher prices ruling in A will stimulate the

competition of imports from outside which would not have been profitable under the lower prices previously obtaining. As, in fact, is indicated in Mr. O'Connor's evidence before Sir H. Fowler's Currency Committee (Nos. 1034-1038) higher prices of India's main articles of export have shown a rise coincident with higher gold prices in England or in other words with a greater demand in England. This is followed by a rise in the Indian price; thus the price of wheat goes up in India directly the price of wheat goes up in England. The figures given in Chapter II, paragraph 12, supply a practical illustration of the above remarks.

2. Before the introduction of the gold standard, assuming that gold prices remained constant, a variation in exchange would affect the rupee prices of commodities in India. It must, however, be remembered in this connection that, with the rupee linked up to gold at a fixed rate of exchange, this disturbing factor has no longer to be taken into consideration. If it also be remembered that over 80 per cent. of the trade in India is with gold-using countries, it would seem *primâ facie* more than probable that the variations of prices in those countries must have a considerable direct influence on Indian prices. Though Indian prices may show large temporary or local fluctuations, they must be affected by the movements of the gold prices prevailing in countries with which India carries on her trade. Professor A. Marshall

described this influence in a somewhat different way in his evidence before the Currency Committee (No. 11772 *ad finem*):—"Seeing that the broad movement in upland prices (as distinguished from their annual oscillations) appear to conform more closely to the general relations of gold, silver, and commodities in world markets than I should have supposed beforehand, I am inclined to think that the cause may be this, that, when local circumstances have raised very much the price of any particular grains, then European influences may help friction and prevent them falling back as low as they otherwise would and *vice versâ*." See also Mr. O'Connor's evidence (Nos. 12149 to 12151) where it is stated that export prices (*sc.* of articles mainly produced for export as opposed to those of which a small quantity is exported relatively to the quantity which is produced and consumed in the country) correspond very largely to the fluctuations of prices in other countries.

3. It would seem naturally to follow that, where the bulk of exported commodities is large, fluctuations in their prices must, by affecting profits derived from their production, affect also the price of labour, etc., generally and tend to influence the general range of other prices also. That this was actually the case may be seen from the table in Chapter VI and the graphic chart in the Government of India publication which illustrates it. These show that the general trend of prices

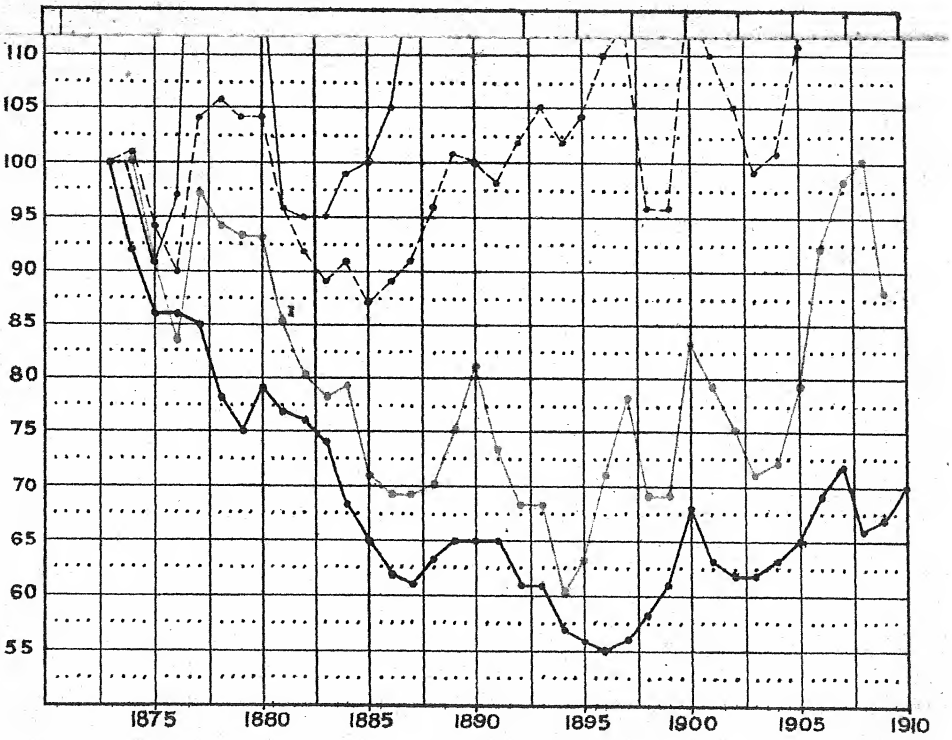
in India over a long period has been the same in the case of (*a*) food-grains, (*b*) imported articles, and (*c*) articles exported and consumed. It will be seen that the variations in the prices of food-grains, while they are similar in kind to those of (*b*) and (*c*), are relatively exaggerated. As has already been pointed out, the exceptional rise in food-grain prices in certain years can readily be traced to more or less serious failures of the crops. The general similarity between their movements and those of (*b*) and (*c*) show that the latter prices are very closely dependent on, or at any rate associated with, those of food-grains.

4. In order properly to compare the trend of Indian silver prices with gold prices in the United Kingdom, it appears to me to be necessary to translate the Indian index numbers, which are on a silver basis, to a gold basis. This is done in the statement on the following page at the rates of exchange current in each year. For the years from 1899 onwards, from which date the Gold Standard became practically effective (*vide* Chapter I, paras. 6 *et seq.*), the rupee has been taken as uniformly equivalent to 1*s.* 4*d.* I give also for convenience of reference a chart comparing Indian food-grain prices with—

(*a*) general Indian rupee prices ;

(*b*) the last-mentioned prices converted to a gold basis as above explained ; and

(*c*) Sauerbeck's figures for English prices.


110
105
100
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55
1875
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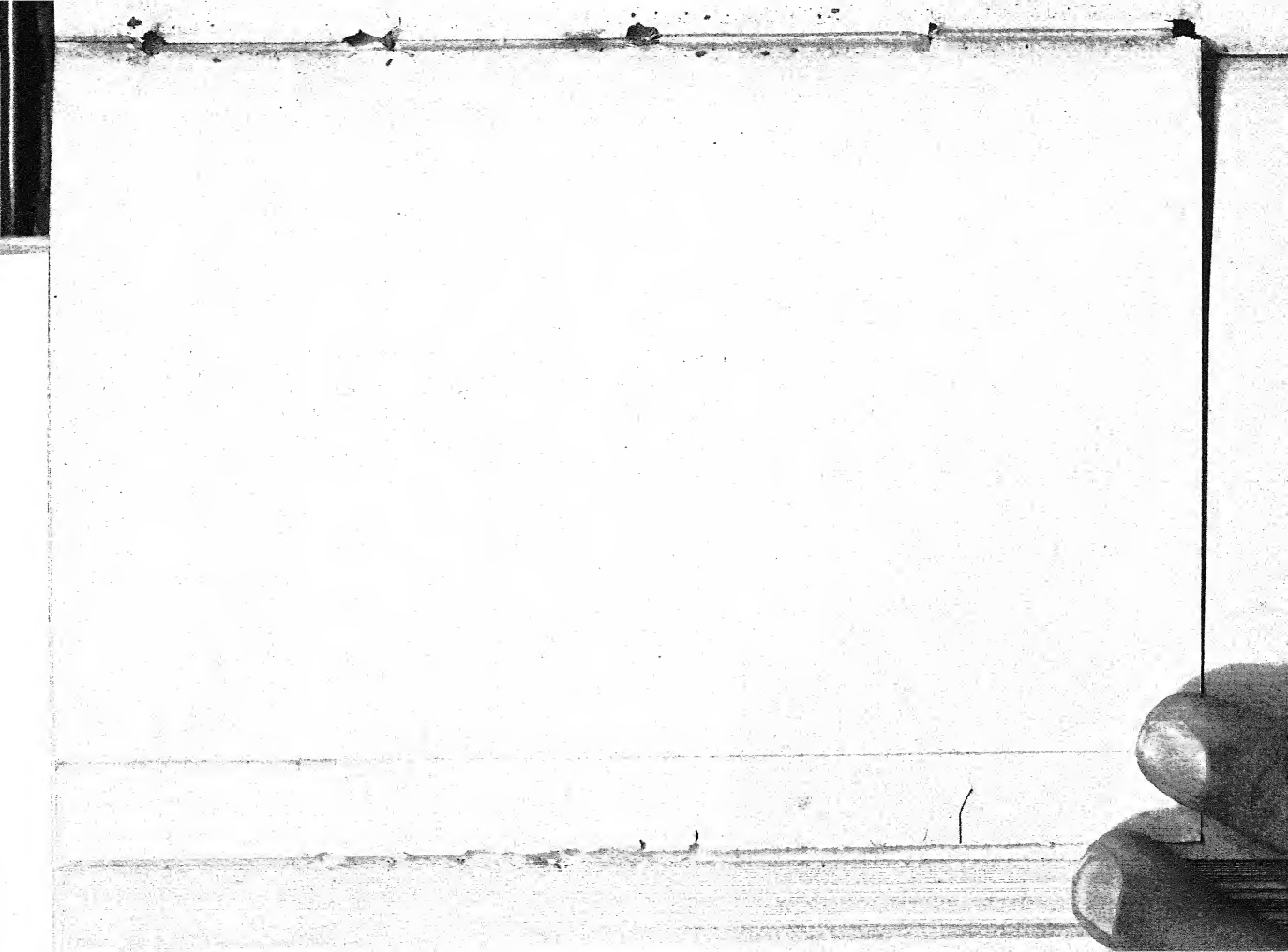
1905
1910



Year.	General Index number of Statistical Department.	Rate of exchange.	Figures in column 2 translated to a gold basis at the rate of exchange in col. 3 and reduced to 100 for 1873.
		d.	
1873 ...	100	22·351	100
1874 ...	101	22·156	100
1875 ...	94	21·626	91
1876 ...	90	20·508	83
1877 ...	104	20·791	97
1878 ...	106	19·794	94
1879 ...	104	19·561	93
1880 ...	104	19·956	93
1881 ...	96	19·895	85
1882 ...	92	19·525	80
1883 ...	89	19·536	78
1884 ...	91	19·308	79
1885 ...	87	18·254	71
1886 ...	89	17·441	69
1887 ...	91	16·898	69
1888 ...	96	16·379	70
1889 ...	101	16·566	75
1890 ...	100	18·089	81
1891 ...	98	16·733	73
1892 ...	102	14·985	68
1893 ...	105	14·546	68
1894 ...	102	13·101	60
1895 ...	104	13·638	63
1896 ...	110	14·451	71
1897 ...	113	15·354	78
1898 ...	96	15·978	69
1899 ...	96		69
1900 ...	116		83
1901 ...	110		79
1902 ...	105		75
1903 ...	99		71
1904 ...	101	16·0	72
1905 ..	111		79
1906 ...	129		93
1907 ...	137		98
1908 ...	139		100
1909 ...	124		88

5. To summarise, I arrive at the following conclusions :—

(1) The movement of Indian prices as reduced to a gold basis has a general similarity with the movement of gold prices in the United Kingdom.

(2) But they have been liable to greater oscillations than English prices, and have also maintained a somewhat higher level.

(3) The facts stated in (2) appear to be due to the influence exercised by the course of food-grain prices in India.

(4) The fluctuations in food-grain prices in India are attributable to extensive crop failures in that country. The fact that apart from this, these prices have shown a general upward tendency might, theoretically, either be due to the continuing effects of the crop failures or to other contributory causes. This question will be examined in the following paragraph.

(5) Generally it would seem not improbable that the rise in food-grain prices would have been accompanied by a larger rise in general Indian prices had it not been for the retarding effect of outside influences as represented, *inter alia*, by a lower range of prices in the United Kingdom, where a general upward tendency only set in as recently as 1896. It is also not impossible that the higher prices prevailing in India may have reacted on those in the United Kingdom and have operated through the law of supply and demand

to retard their fall when falling and to facilitate their rise when an upward tendency set in. This is, however, necessarily mere hypothesis.

Causes internal to India.

6. I have endeavoured to explain above the extent to which prices in India have been affected by general causes operating in other countries also. Now that the rupee has been linked on to gold this connection is directly traceable. I have also referred to the great fluctuations in Indian prices which have been caused by years of scarcity. In this connection I may remark that in India two factors of an entirely different kind may conduce to higher prices, *viz.*:—

(1) Greater prosperity of the producing classes, such as that which followed the great extension of cotton cultivation in the sixties, and more recently the jute boom which has brought immense sums to the cultivators. The amount received by them in payment for the latter crop in 1905-06 was estimated at no less than Rs. 40 crores, or nearly £27 millions sterling. The increased *values* of exported food crops and other agricultural products, such as oilseeds, give the cultivators more money to spend on other commodities also.

(2) Agricultural calamities, such as famines, which restrict supply, and at the same time enhance the value of, the restricted outturn. The extreme

fluctuations in the prices of food-grains due to this latter cause have already been referred to.

Apart from the above, the following subsidiary causes at once suggest themselves :—

(3) The demand for rice and wheat for export. This factor has doubtless directly affected the price of these articles, and through them the price of the common food-grains. At the same time, though it has tended to raise the general average of their prices over a series of years, it may be pointed out that while the exports in normal years are large, they shrink automatically in famine years in a surprising manner. Thus the exports of wheat, which in a good year, may amount to 15 or 20 million cwt., declined in 1896-97 and 1897-98 to about 2 millions, while in 1900-01 the export trade practically ceased to exist, only 50,000 cwt. leaving the country. In 1904-05 the exports were 43 millions ; in 1908-09 they dropped to 2 millions only. In the case of rice the exports from the whole of India, which have been as high as 49 million cwt. (*viz.*, in 1904-05) have dropped in bad years to less than 30 millions as in 1908-09. In other words, the export trade encourages production, and creates a reserve which is drawn upon in time of scarcity—a reserve which but for that encouragement would not exist. It is a justifiable assumption that this reserve actually tends to prevent prices rising to the extent that they would have done in its absence.

(4) The extension of the area under jute in Bengal and Eastern Bengal. This crop in 1907-08 covered more than 6,000 square miles, the cultivator finding it more profitable to grow jute and to buy rice than to raise the latter crop. In some areas the same land can produce a rice crop within the year in addition to a jute crop, but there is no doubt that jute has to some extent actually displaced rice. In subsequent years the fall in the price of jute and the great demand for food-grains has caused some reaction.

(5) The growth of the population. In the last 20 years the population of British India has increased from 221 (1891) to 244 millions, or by over 10 per cent. For the Indian Empire as a whole the census of 1911 (provisional figures) showed an increase of 7 per cent. in the last decade:—

	Population in millions.		Percentage of increase.
	1901.	1911.	
British India ...	231·6	244·2	5·4
Native States ...	62·7	70·8	12·9
Total ...	294·3	315·0	7·0

The increase was not by any means uniform over different areas, and the population of the United Provinces and the Punjab, owing to famines, the ravages of plague and other causes, showed a slight decline. In the more fertile agricultural tracts a great expansion took place,

this being most marked in the Central Provinces and Berar (16·3 per cent.), Burma (14·9 per cent.), and Eastern Bengal and Assam (11·4 per cent.). This growing pressure on the soil necessarily leaves a smaller margin of produce in excess of the net requirements of the cultivating classes for their own consumption, accompanied by a growing demand for the diminishing supply. It might be suggested that the pressure on the soil is to some extent relieved by the increasing demand for industrial labour. But it must be remembered that about two-thirds of the population of India depend on agriculture, and that the Indian rustic is a most conservative individual, and usually clings to his native village until compelled to leave it by the pressure of *dura necessitas*. The large rise in wages in India in recent years can be explained by the great demand for industrial labour, though it is possible that it may have been to some extent affected by the concurrent rise in food-grain prices.

(6) The great development of industries on modern lines accompanied by a large increase in the numbers of the industrial classes. Thus the average number of hands employed daily in factories rose from 681,000 in 1903 to 876,000 in 1908-09. These figures exclude 72,000 persons employed in factories owned by Government and local bodies, 129,000 in the coal mining industry, and over half a million on railways. This growth

in industries has necessarily been accompanied by a largely increased demand for food stuffs, etc., in the industrial centres.

7. For these reasons the rise in prices in India in recent years can, in my opinion, be sufficiently explained by the great economic changes which have been taking place both in and outside that country. The suggestion has, however, been on more than one occasion put forward that the price movements in question have also been largely affected by the heavy coinages of rupees in the years 1900 to 1907 inclusive. This point will be dealt with in the following chapter.

CHAPTER IX.

CONNECTION BETWEEN THE VOLUME OF THE RUPEE CURRENCY AND RUPEE PRICES IN INDIA.

THE question of the connection between *currency* and prices is no less intricate and controversial than the similar question of the relation between gold *production* and prices with which it is bound up. These questions have already been referred to in Chapter VII. The position is clearly stated by Lord Farrer, who held that the quantity of *coined* money does not affect prices. He writes (Studies in Currency) :—

"In asking the question whether prices depend on the quantity of money, we must first determine what we mean by 'money.' Money may mean the gold coin or sovereign which is our standard of value, and the unit of which all prices are multiples. The value in exchange of the sovereign is the value of the gold which it contains ; the value of gold depends, as in all other cases, on demand and supply ; and since quantity is the most important element in supply, the quantity of gold in existence affects the value of the sovereign, and through the sovereign affects prices, but it is the quantity of available gold in existence, not the

quantity of coined money, which has this effect; and the question of the moment is whether the whole quantity—in other words, the supply of gold—has increased or diminished when compared with the demand."

It must be remembered in this connection that the absorption of gold by India in enormous quantities has been going on for very many years. As far back as 1868 Seyd wrote (Bullion and Foreign Exchanges, page 527): "Except during the few years of occasional stagnation of trade India is always an importer of bullion to a considerable amount, sufficiently so indeed to alarm Europe." And on page 288 of the annual report of the Secretary of the Treasury of the United States for 1906 it is remarked that "the tide of gold and silver has been flowing into India for centuries."

2. Similarly Professor Nicholson held (Money and Monetary Problems, page 93) that the quantity of standard money, other things remaining the same, determines the general level of prices, whilst on the other hand, the quantity of *token* money is determined by the general level of prices. It would serve no useful purpose in the present place to embark on a lengthy discussion of the correctness of a general proposition of this kind. There seems, however, little doubt that an increase of real money in the form of gold has, through its effect in adding to the general superstructure of credit formed thereon, the effect of increasing the circulating

medium as a whole, and that it is therefore one of the factors which may operate to raise prices. A higher level of prices would *primâ facie* be accompanied by an increased cost of living generally, and would tend to necessitate the use of a larger subsidiary coinage for the ordinary transactions of every-day life. To this extent the principle is plausible. But it is by no means impossible that an increase in subsidiary or token coinage (such as the Indian rupee now is, inasmuch as it is really on a gold basis) might, of itself, operate to raise prices in the same way that an addition to the circulating medium in the form of the standard money with its accompaniment of credit would do. This last contingency could, however, in my opinion, only occur if the amount of the subsidiary coinage was in excess of the demand for it as such, in which case it is possible that there might be some depreciation of the subsidiary coinage as compared with the standard.

3. No such depreciation as compared with the standard has occurred in India where, as has already been seen, practical convertibility of the rupee has been attained. Where there is a highly depreciated currency, such as has almost invariably been the case in countries with an issue of inconvertible paper, prices of commodities as measured in that currency must necessarily appreciate. The position in India is different. The coinage of rupees has only been undertaken in order to meet the demands of the

trade. When the demand ceased in 1907, the coinage of new rupees was discontinued by the Government. The sale of sterling drafts on London operated to redeem the rupees in excess of the public requirements. These rupees were then held by Government in the silver branch of the Gold Standard Reserve. Both these and the further large quantities which flowed back into the Paper Currency Reserve were for all practical purposes withdrawn from circulation, until the revival of the demand for Councils indicated that they were again required for trade purposes.

4. This point is illustrated by the figures in the statement appended to Chapter I, para. 24; the total amount of rupees coined and rupees absorbed in each year since the closing of the Indian Mints are shown below :—

Year.	Coinage of rupees at the Indian Mints.	(In Crores) Net absorption of rupees.
1893-94	4·14	−4·55
1894-95	.....	−·35
1895-96	.....	4·48
1896-97	.....	3·55
1897-98	·49	−1·19
1898-99	·42	−·96
1899-1900	1·30	10·30
1900-01	17·15	9·90
1901-02	4·95	1·53
1902-03	11·27	·26
1903-04	16·17	10·76
1904-05	10·88	7·75

Year.	Coinage of rupees at the Indian Mints.	(In Crores) Net absorption of rupees.
1905-06	19·60	14·35
1906-07	25·37	16·76
1907-08	17·32	3·85
1908-09	2·51	−15·96
1909-10	2·08	14·31
1910-11	2·20	3·87

The use of a minus sign indicates a return from circulation.

It must be clearly understood that the number of rupees coined does not correspond to the number which actually passes into circulation in any year. In the first place a deduction must be made on account of old rupees withdrawn for recoinage. More than Rs. 37 crores have been so withdrawn since the closing of the Mints in 1893. Secondly, under an arrangement with certain native States, the Government of India have taken over, during the years from 1897 onwards, more than 9 crores of rupees of various currencies circulating in the States, supplying in exchange Government rupees. Again, to arrive at the net increase or decrease in the number o rupees in circulation certain further important adjustments are necessary. The most considerable of these are due to the movements of the Government cash balances (*e.g.*, in 1893-94 these rose by as much as Rs. 10·29 lakhs), to fluctuations of the various components of the Paper Currency

Reserve (vide *e.g.*, the table appended to Chapter I, para. 24), and to payments of rupees into, or withdrawal of rupees from, the silver branch of the Gold Standard Reserve. There is also some absorption due to the hoarding of rupees and their melting for ornaments. This latter element cannot of course be exactly estimated, and no allowance for its effect is therefore made in the above table. Some years ago a series of elaborate calculations was made, and it was estimated that the rate of disappearance of rupees was approximately 7 per cent. (Mr. F. C. Harrison arriving at a figure of 6·77 per cent., and Mr. W. S. Adie of 7·56 per cent.). Mr. Harrison calculated that in 1900 the active circulation of rupees was approximately Rs. 130 crores. It is probable that in recent years considerable quantities of hoarded rupees have returned to circulation (see Chapter I, para. 24), and, moreover, owing to the fact that the rupee has become a token coin, the percentage melted down for ornaments must necessarily have diminished. The above statement shows a net absorption of Rs. 67·4 crores in the 11 years following 1900, and, if the wastage due to hoarding and melting down be left out of account, we arrive at a total circulation of between 190 and 200 crores of rupees at the present time. Mr. Atkinson recently, after making an allowance of about Rs. 20 crores for hoarded rupees in the years from 1900-01 onwards, estimated the total circulation in 1908-09 at Rs. 204 crores.

5. Even if the larger figure be taken, it must be borne in mind that the population, wealth and trade of India have expanded enormously in the last 15 to 20 years, necessitating a much larger currency than was formerly sufficient. Not very many years have elapsed since the greater portion of the country was under a regime of barter. The priest, the barber, the washerman, the potter, and the labourer were all paid in grain. To provide currency for the replacement that has been going on all over the continent of India an immense number of rupees has been required. Further, as was pointed out by the Finance Member of the Viceroy's Council at the Budget debate of 1908, the *net* additions to the coinage, after making allowance for withdrawals, etc., amounted, in the 15 years following the closing of the Mints, to a little less than Rs. 84¾ crores, or an average of Rs. 5½ crores per annum ; in the 15 years preceding the closing of the Mints, the net additions to the coinage amounted, after the same deductions are made, to over Rs. 105 crores, or slightly more than Rs. 7 crores a year. Moreover, prior to 1908, the two years in which the prices of food-grains have been highest were 1897, when the mints had been closed to the coinage of rupees for three years, and 1900, when the rupee currency had become so inadequate as to cause serious inconvenience to trade and to necessitate an immediate resumption of coinage.

6. It may also be pointed out that the rupee is not the only form of currency for which there has been a rapidly increasing demand in recent years. The increase in the circulation of Government currency notes has been no less remarkable. I give below the figures for the average *net* circulation of currency notes from 1901-02 onwards. These figures, it may be explained, exclude the notes held by Reserve and other treasuries and by the Presidency Banks at their head offices. They show that, in spite of a temporary set back in 1908-09, there has been an average increase, during the period, of two crores a year in the value of the notes in circulation:—

Average active circulation of Government currency notes in crores of rupees.

1901-02	...	..	... 21·19
1902-03	...	...	... 23·49
1903-04	...	...	... 26·34
1904-05	...	...	... 28·11
1905-06	...	...	... 30·52
1906-07	...	...	... 33·93
1907-08	...	...	... 34·43
1908-09	...	...	... 33·10
1909-10	...	...	... 37·21

7. I have previously referred in Chapter I to the increasing absorption of sovereigns in India. This has led to the suggestion that the Indian Government might have met trade demands with a less extensive coinage of rupees if they had given

greater encouragement to the use of gold. But the authors of such criticisms forget that the Indian peasant cannot be hurried into acceptance of gold for his raw produce, and that, while the value of that produce increases, the demand for rupees to finance the trade of the country will simultaneously grow. An automatic currency must, as already explained, aim at supplying the public with the form of currency which they may from time to time require.

8. Another important branch of the circulating medium is "credit." It is not possible to estimate the extent to which the circulating medium has been swelled in India by the expansion of "credit." But this factor must not be left out of consideration. As the following figures of bank deposits in India show, the increase in the capital deposited in the banks, and thus made available for the financing of commercial operations, is not inconsiderable. The figures, which are taken from the Financial and Commercial Statistics of British India, Part II, Commercial, pages 64-65, require some qualification as there pointed out :—

	In crores of rupees.	
	1898.	1908.
Presidency Banks (excluding Government deposits) ...	10·78	28·62
Exchange Banks (excluding deposits out of India)	9·49	19·51
Other Joint Stock Banks ..	6·89	16·18
Total	27·16	64·31

These figures take into account certain deposits twice over. Mr. Murray to whose remarks on a very similar matter I referred in Chapter I, para. 24, estimated the total deposits in banks in India in 1910 at Rs. 63·6 crores, after deducting from the Presidency Banks one-third, as representing the deposits of other banks. He gives the corresponding figures for 1870 and 1890 as Rs. 8·9 crores and Rs. 15·4 crores respectively, and these show clearly the great advance which has taken place.

9. It is interesting to recall the fact that the converse question, as to the effect that the contraction of currency due to the closing of the Mints might have, was considered before Sir H. Fowler's Committee but with somewhat negative results. Mr. Harrison (Questions Nos. 2457-8 and 2465) said that he would not expect it to affect prices except slowly, and would not attempt to give an estimate of the period within which such an effect might ensue. Mr. Finlay (Nos. 2749-53), while he thought that the effect would be felt probably in less than 3 years, admitted that there was no positive evidence on the point and that it was not possible to say with certainty what the effect would be. Mr. A. M. Lindsay thought that though a contraction would affect prices, its more immediate effect would be through the money market (Nos. 3906-8, 3961).

Some remarks made by Professor A. Marshall (No. 11760) before the Committee are also apposite:

"The relation between the volume of the currency and the general level of prices may be changed permanently, first by changes in population and wealth, which change the aggregate income; secondly, by the growth of credit agencies, which substitute other means of payment for currency; thirdly, by changes in the methods of transport, production, and business generally, which affect the number of hands through which commodities pass in the processes of making and dealing. These causes are specially difficult to trace in India. In some parts of India the local informal petty cash seems to have fallen much out of use, and in other ways the work of the recognised currency has been increased. On the other hand, the rapidity of circulation of currency has also been much increased, and there has been a somewhat extended use of notes."

10. I think that these facts sufficiently show that there are no substantial grounds to lend support to the contention that the heavy coinages of rupees in the last decade have contributed materially to raise the prices of Indian food-grains to their present level. To summarise:—

(1) The net issues of rupee coinage since the closing of the Mints were not heavier than in the corresponding period immediately preceding.

(2) The Indian currency system provides an automatic method for withdrawing any temporary excess of rupees from circulation.

(3) The rupee coinage is not the only element of the circulating medium, and that an increase in this medium has been required is shown by the increase in the demand for other forms of currency, including credit, in recent years.

(4) The general rupee prices of other articles have not increased in correspondence with those of food-grains.

11. While therefore it is true that the rise in the level of agricultural prices in India has been accompanied by an expansion of the circulating medium, through additions to the coinage and otherwise, the main causes of the rise must be sought in the economic conditions prevailing in India in recent years. I mean the main causes peculiar to India. Apart from the general causes affecting prices in other countries, which must closely affect India also on account of her large external trade, and apart from fluctuations due to famines, it is India's own economic development which has necessitated the expansion of the currency by, *inter alia*, the additions made from time to time to the rupee circulation. As in the sixties, the expansion of cotton cultivation due to the external demand for the crop, so now the great jute industry and India's other valuable exports, her factories and her general industrial progress have at once increased the resources of her population, and necessitated an increase in the circulating medium — both for larger

transactions (mainly in the form of credit) and for the smaller ones of every-day life (in the shape of rupees). We must be careful not to treat as cause and effect fluctuations in price levels and fluctuations in the volume of the currency merely because much fluctuations synchronise. That they have synchronised is largely attributable to the fact that they are traceable directly or indirectly to the same causes. To put in a different way what I have said in another chapter, a fluctuation in price levels should be regarded as an index of economic changes which are taking place and not as an effect of which a fluctuation in the volume of the circulating medium is a cause.

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